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THE ESTABLISHMENT OF THE NATIONAL BANKING SYSTEM

A DISSERTATION

SUBMITTED TO THE FACULTY OF THE GRADUATE SCHOOL OF ARTS AND LITERATURE FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

(DEPARTMENT OF POLITICAL ECONOMY)

BY

WILLIAM WALKER SWANSON

KINGSTON:
1910.

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CONTENTS.

PAGE

CHAPTER I.

PRECEDENTS FOR THE NATIONAL BANKING SYSTEM..... 1

CHAPTER II.

STATE BANKING PRIOR TO THE CIVIL WAR 12

CHAPTER III.

THE CRISIS OF 1860 AND THE FIRST ISSUE OF CLEARING-HOUSE CERTIFICATES 22

CHAPTER IV.

SUSPENSION OF SPECIE PAYMENTS AND THE ISSUE OF UNITED STATES NOTES 46

CHAPTER V.

THE DEBATE ON THE NATIONAL BANK BILL OF 1863..... 58

CHAPTER VI.

THE REVISION AND EXTENSION OF THE SYSTEM..... 84

APPENDICES.

APPENDIX I 103

APPENDIX II 115

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CHAPTER I.

PRECEDENTS FOR THE NATIONAL BANKING SYSTEM.

§1. The national banking system was established in the United States in 1863. Contrary to popular belief, it was not an entirely new venture in the field of banking. If one keeps in mind that uniformity and stability of currency were the great ends sought by its founders, one must confess that these features of a sound bank-note circulation had long been sought after in many of the individual states. Both Mr. Chase, who was Secretary of the Treasury when the national system was established, and Senator Sherman, who made the chief speech in the Senate in behalf of the bill, pointed out that the national banks would not be entirely in the nature of an experiment.[1] Indeed, Senator Sherman asserted that the bill ought to accomplish only what all the statesmen of the country had attempted up to that time.[2] This was, however, not strictly true. As is well known, some had been altogether opposed to anything resembling a national bank, or a national banking system. Sherman came nearer the truth when he declared that "every party that had been organized in this country from the foundation of the government to the present day had, at some period of its history, sought to accomplish the object of a uniform currency."[3] The reader will recall that the Federalists, under the lead of Hamilton, had brought about some semblance of order in the currency, by the creation of the United States Bank. For twenty years this gave the country a somewhat stable currency. Following the expiration of the charter of this bank there was a period of four or five years of local bank issues,—a time of great confusion and disorder. Then followed the establishment of the Second United States Bank, by the Re-

[1] *Report of the Secretary of the Treasury*, 1861, p. 19.
[2] *Congressional Globe*, 37th Congress, 3d session, p. 841.
[3] *Ibid.*, p. 844.

publicans, under the leadership of Mr. Dallas and Mr. Madison. The debate on its establishment was quite similar to that in which Congress later engaged over the national banks. The conditions in banking in 1815-16 were similar to those of 1863 when there was a "depreciated and disordered paper currency which could be remedied only by the substitution of a national currency."[4] This bank gave the country for a period of twenty years a stable currency; but neither of these great banks furnished a uniform currency. Nevertheless they exerted a great influence in the direction of uniformity in the bank-note issues of those times.

Insecurity, the first indication of a defective currency, entered into exchanges soon after the expiration of the charter of the Second United States Bank. To overcome this the Independent Treasury was established. Through this institution the financial affairs of the government were freed, to a certain extent, from the ill effects of unsound banking. In after years the Independent Treasury was regarded by the advocates of national banks as a wise measure; and they cited it as a precedent for establishing a national bank-note currency.[5]

§2. During the course of the debate in 1863 it was pointed out by Mr. Spaulding and others that the new system would be in no sense in the nature of an experiment. It was said that the plan had been thoroughly tested in the State of New York.[6] There can be no doubt that this was the case. It will be necessary, then, to examine in more or less detail the precedent set by that state.

After the panic of 1837 the business interests of New York felt the need of such a change in banking methods as would once again put affairs on a sound basis. At that time "restraining-acts" were in force; that is, banks were chartered under special acts, which confined banking to a relatively few persons. Moreover, charters were too often regarded as legitimate political spoils. Under this system the opportunity to

[4] *Ibid.*
[5] *Ibid.*
[6] *Vide, New York Tribune*, Feb. 2, 1863.

engage in banking was very often denied to those who were most competent. Because of the inequalities of the system, a strong movement grew up to reform it. This found expression in numerous petitions to the legislature for the passage of a law whereby banks might be incorporated under a general charter.[7] The petitions were referred to a select committee of the Senate which made a report March 18, 1837. In it were enumerated the great defects of banking in New York, the depreciation of the notes and the great losses that had occurred through frequent suspensions.[8] It was pointed out that charters were regarded as spoils for party followers. The committee, further, made a curious complaint to the effect that under special charters banks "issued their notes and received interest thereon, whereas the community was forced to pay interest when issuing its securities." This charge, of course, resulted from a very naïve conception of the theory of banking. Their accusations were more to the point when they arraigned the existing system as a monopoly.[9] This, it was claimed, was the reason that Van Buren, when governor of New York, favoured the safety-fund scheme. It, at least, made the banks share common obligations, brought them into more responsible relations with the people, and lessened their autocratic tendencies. Nevertheless, the safety-fund plan was not enough to remedy existing evils. On the whole it had proved a success; but in the panic of that year (1837) the state had been compelled to assist the banks to the extent of $6,000,000.[10]

On January 2, 1838, the Governor, in his annual message, said that there were certain objections to an unqualified repeal of the "restraining-acts." These objections, however, would be removed if the bank-note issues were secured by a safety-fund. He recommended that a free-banking act should be passed, so constructed that the interests of the public would be amply protected.[11]

[7] *New York Senate Document*, No. 55 (March 18, 1837).
[8] Knox, *History of Banking*, p. 413.
[9] *Ibid.* [10] Horace White, *Money and Banking*, p. 335.
[11] Knox, *op. cit.*, p. 414.

To Mr. E. Mann, then a member of the House, must be given the credit of proposing that the new act should provide for note-issues secured by bonds. His suggestion was accepted; and a committee of nine, of which he was chairman, was appointed to deal with the matter. Mr. Mann afterwards said that he was influenced by the procedure of joint-stock banks in England. These banks invested much of their capital in government consols, holding them as a part of their reserves.[12]
to deal with the matter. Mr. Mann afterwards said that he was influenced by the procedure of joint-stock banks in England. These banks invested much of their capital in government consols, holding them as a part of their reserves.[12]

§3. It should be noted, however, that Michigan was in reality the first state to enact a general banking law under which notes were secured by bonds. This act was passed in 1837.[13] It provided that the president and directors of each banking association should, before commencing business, deposit securities with the auditor-general, to be held by him for the protection of note-holders. These securities were to consist of bonds and mortgages upon real property within the state.[14] One can readily see that this provision gave unscrupulous bankers great latitude; and only disaster therefrom could be expected. In another place an account will be given of the havoc wrought.[15] It is sufficient to say here that the distress and misery ensuing from this plan have left an impress upon the bankers of the nation from that day to this. On the contrary, the New York free banks had a long and honorable career; and it was natural, therefore, for the advocates of the national system to turn to that state, rather than to Michigan, when drawing up their plan.

§4. The Free Banking Act of the State of New York was passed April 18, 1838, under the heading: "An Act to Authorize the Business of Banking."

[12] *Ibid.*, p. 415.

[13] *Laws of Michigan*, sec. 11, p. 79.

[14] *Ibid.* [15] Chap. II.

The second section of the act provided that, whenever any person or association should transfer to the comptroller any portion of the public debt of the United States or of such states as should be approved, circulating notes would be exchanged therefor; the proviso being added that all stock transferred should be equal in value to the five per cents. of the State of New York. The notes were to be payable on demand at the place of issue within the state.[16]

In the seventh section an unfortunate clause was introduced to the effect that it would also be lawful to secure one-half of the amount of notes issued by delivering to the comptroller bonds and mortgages upon real estate, bearing a minimum interest of six per cent. In such cases, however, the notes were to be stamped: "Secured by pledge of stocks and real estate." Such mortgages were limited to improved, unincumbered lands within the state, worth independently of the buildings upon them at least double the amount for which they were mortgaged.[17]

The characteristic feature of this act—the requirement that banks operating under the general charter should deposit securities with the comptroller as a guarantee for their note issue—was made the distinguishing feature in the national banking system. The note-holder was to be guarded against any possibility of loss, even at the expense of the other creditors of the bank.[18] It was not done because there was any inherent reason that notes should be preferred to the other liabilities of a bank, but simply that notes, in order to fulfill their principal function, must be made as nearly as possible a universal currency. Checks on deposits perform the same function as notes; but they are not intended to have universality, since each particular check rests upon proof of an account at the bank.

The New York law further provided that each association desiring to operate under the act was authorized to fix its own

[16] *Laws of New York*, sixty-first session, sec. 2, p. 246.

[17] *Ibid.*

[18] *Vide, Report of the Monetary Commission*, 1898, p. 237, sec. 143.

corporate name; to determine the amount of its capital, which could not be less than $100,000, and the period of its corporate existence. It was also to designate the place where its banking operations were to be carried on. A single individual taking out a charter was subject to unlimited liability. Each bank was required to keep on hand a specie reserve of not less than 12½ per cent. of its issues. In case of failure or refusal of a bank issuing notes to redeem them on demand, the comptroller, after ten days' notice, was authorized to apply the bonds or mortgages pledged, to the payment of them.[19]

On the passage of the act there was a rush by bankers to secure charters. It was very soon observed that the system was not going to work as smoothly as had been anticipated.[20] In 1840 the comptroller called attention to the remarkable activity in banking; and stated that he feared the result of the mania for charters. One bank had already failed; fortunately without loss to note-holders.[21] It was feared, however, that this presaged further failures. Yet the comptroller was anxious that the system should have a fair trial; and therefore made every effort to see that the securities deposited were of sufficient value to protect the notes.

But disasters were inevitable. By January, 1841, eight banks had failed. Of these, four had discontinued without loss to the note-holders.[22] The other banks redeemed their notes at a

[19] *Laws of New York*, sixty-first session, pp. 246 et seq.

[20] By January 1, 1839, forty-eight associations had made applications for charters, and filed the requisite certificates in the office of the Secretary of State. The amount of capital subscribed was $10,838,175. The stocks transferred by the sixteen associations that were ready to commence business amounted to $1,170,090; mortgages $422,910. On these, $396,000 of circulation was issued. By December, 1839, the number of associations had increased to one hundred and thirty-three; and of these, seventy-six, with a total capital of $21,000,000 and circulation of about $6,000,000, were in full operation. L. Carroll Root, *Sound Currency*, vol. 2, no. 5, p. 17.

[21] *Ibid.*

[22] The Willoughby Bank (Brooklyn); the Farmers' Bank of Penn Yan; the New York City Trust and Banking Company; and the Chelsea Bank. *Ibid.*

discount.[23] Eighteen more failures occurred in 1842, and more notes were redeemed at a discount. By 1844 the comptroller stated that forty-four banks had deposited securities and issued notes thereon. Of this number eight had voluntarily wound up their business; twenty-six had failed; and the aggregate circulation of $1,197,547 was taken up by the comptroller at an average of 75c. on the dollar. In 1848 the number of free-banking institutions was fifty-three; in addition to which fifty-one individual bankers were holding charters. The total outstanding circulation amounted to $9,993,762. The securities deposited to protect these notes were valued at $10,640,182. New York State stocks made up $7,627,092 of this amount; United States stocks $114,000; bonds and mortgages $1,514,979. Among the securities deposited were bonds of Illinois, Arkansas, Indiana, Alabama and Michigan.[24]

By the act of April 12, 1848, it was required that all banking associations organized under the general law of 1838 should open deposit accounts, and discount paper, as well as circulate notes.[25] It was also provided that the usual business of banking should be transacted where the bank was located. The practice of establishing banks of issue only had greatly increased; and oftentimes no real banking was done. In his report for that year the comptroller said: "During the past year a number of applications have been made for the establishment of individual banks at points remote from the general channels of business, and where no necessity seems to exist for banking facilities. The redemption at a discount of one-half of one per cent. allowed by law is probably one of the

[23]The Tenth Ward Bank of New York, 94c. on the dollar; the Bank of Tonawanda, 86c. on the dollar. The Farmers' Bank of Seneca County, and the Millers' Bank had two classes of bills in circulation—those issued on New York State stocks alone, and those issued on state stocks and mortgages. The state stocks were sufficient to redeem in full the notes issued on them. The other class, those issued upon mortgages and stocks other than those of the State of New York, paid, in the case of the Farmers' Bank, 64c. on the dollar, and in the case of the Millers' Bank, 94c. *Ibid.*

[24]L. Carroll Root, *op. cit.*, p. 18.

[25]*Laws of the State of New York*, 71st session, 1848, p. 462.

principal inducements for establishing banks of this description. The notes are signed and circulated in the city of New York, and by fixing the place of redemption at some inaccessible point, the holder is compelled to go to the office where the note was really issued, in Wall Street, and pay one-half of one per cent. for its redemption. If all the banks in the state were compelled to redeem their notes at par in New York, the motive for multiplying these shaving shops would probably be removed."[26] This abuse was one of the favourite devices adopted by unscrupulous bankers during the period of free-banking, and gave rise to the notorious "wild-cat currency."

New York suffered severely through allowing mortgages to be used to secure the notes. It is difficult to appraise the value of a mortgage; and the comptroller found that personal investigation was required to determine what they are worth. Moreover, mortgages are not "quick assets," and cannot be realized upon if there be sudden need. The comptroller, in his report of 1848, stated that the average amount at which bonds and mortgages had sold during the previous ten years had been 67.71 per cent; while five per cent. New York stock had sold at an average of 92.86 per cent.[27] He recommended the gradual withdrawal of all securities except New York State stocks. The Superintendent of Banks in his report of 1854 said: "It is believed that all the bonds and mortgages that have been sold under the provision of the free-banking law since the passage of the act of 1838 have not yielded over 75 per cent. on their face value."[28] By the act of April 29, 1863, mortgages were finally discarded as a basis for circulation; and securities were restricted to bonds of the United States and of the State of New York. The provision was added that not more than two-thirds of the bonds deposited might be those of the United States.[29]

[26] In 1851 the legal discount on bank notes was reduced to one-quarter of one per cent. White, *Money and Banking*, p. 338.

[27] L. Carroll Root, *op. cit.*, vol. 2, no. 5, p. 21.

[28] *Ibid.*

[29] *Laws of the State of New York*, 86th session, 1863, p. 436.

Thus, the free-banking system, as worked out in New York, underwent many reverses before a safe and adequate method of banking was secured. But by 1861 it had become so modified and perfected that New York bank notes were everywhere accepted at par. This was made much of in the debate on the national bank bill in the Senate in 1863. Senator Sherman pointed out that the circulation of New York was held in such repute throughout the West that it commanded a premium over the circulation of local banks. During the war it was at a premium over the greenbacks.[30] New York Senators bitterly opposed the national banking measure; as they surmised—and correctly—that the new circulation was meant to drive that of New York and of the other states out of existence. The *coup de grace*, in the case of New York at least, was given not because the circulation was bad, but because it was good; not because the people had no confidence in it, but because they preferred it even to national bank notes.

§5. It is instructive to note the success the new system had in meeting the business demands of the people. Though the securities accepted by the comptroller were, in general, procurable at such rates that banks were not compelled to purchase at a premium, or to accept bonds and stocks bearing a low interest, yet any prompt response to legitimate demands for more currency was none the less difficult to secure. A request by the community for twenty or twenty-five per cent. increase of circulation at certain periods of the year was not at all uncommon. But a demand by the banks for securities as a basis for such an increase of notes was certain to involve a rise in the price of these securities; and the throwing of an equal amount on the market when no longer needed entailed a depreciation in their value. To make the process pay, not only the customary and ordinary rates of interest for loans had to be secured, but an additional interest to make up the loss involved. It was found under this system in New York that it did not pay to

[30] As was the currency of some other states. See *Congressional Globe*, 37th Congress, 3rd session, p. 847.

meet this sudden demand for notes; and the increase of currency was limited to practically the amount of securities which a bank had on hand. Moreover, the banks often hesitated to sell their bonds at a loss; but kept them on hand or attempted to issue notes upon them. The actual result was practically a rigidity of circulation, as might be expected. This is one of the greatest difficulties which remains to be solved under the present national system.[31]

§6. As is well known, there was at this time in New York another system of banking—the safety-fund—which has furnished an interesting and instructive lesson to students of finance. It will be helpful to describe it in broad outline, in order that, by contrast, the defects of the bond-deposit plan may be clearly seen.

The act of April 2, 1829, which established the safety-fund system in New York, provided for a special fund, called by Governor Van Buren the "bank fund."[32] This was to be made up of a tax of one-half of one per cent. of the capital stock of each bank until the payments should aggregate three per cent. of the total paid up capital of all the banks. This sum was invested by the state; and was intended to guarantee both the note-holders and depositors. Whenever the fund should become depleted through the failure of any bank, it was to be brought back to its former level by an additional annual tax of one-half of one per cent. The act was modified in several important particulars as experience revealed its weakness. Provision for the immediate redemption of the notes of failed banks, whenever the liabilities in excess of the assets of such banks should not amount to more than two-thirds of the fund, was made in 1837.[33] There were eleven serious failures in the years 1840-1842; and the fund was greatly depleted. This led to a most important change in the act of 1842. It was provided that thereafter the fund should be used only for the re-

[31] *Vide*, *Atlantic Monthly*, July, 1906, article by George L. Von Meyer, "*Our Unelastic Currency*."

[32] *Laws of the State of New York*, 52nd session, 1829, p. 167.

[33] *Laws of the State of New York*, 60th session, 1837, p. 381.

demption of the notes, and not as a guaranty for deposits.[34] Several important provisions were added in 1846. The note-holders were then given a first lien upon the assets; and stock-holders were subjected to double liability.[35] Had these safe-guards been included in the original act, no doubt the history of the safety-fund banks would have been very different. It is thought that the total losses that could have been then legitimately made good from the guaranty fund would have been met by an annual assessment of less than one-tenth of one per cent. on the capital.

§7. The ability to serve the public with notes at sudden or seasonal demands is different under the two systems. The legitimate borrower, at periods of pressure due to moving the crops or to other reasons, is mainly interested in the cost of securing capital in the form of notes. The rate at which he will get his loan will depend in part upon the ease or difficulty with which a bank can extend its demand liabilities in the form of note-issues, if notes are required. But elasticity is the essential feature of an asset-currency system as compared with a bond-deposit system. The experiments of New York, under these two plans, plainly showed the superiority of the former, so far, at least, as elasticity is concerned.

[34] *Ibid.*, sixty-fifth session, 1842, p. 306.
[35] *Ibid.*, sixty-ninth session, 1846, p. 100.

CHAPTER II.

STATE BANKING PRIOR TO THE CIVIL WAR.

§1. It is impossible, and indeed unnecessary, to give a detailed account of banking in the United States previous to the founding of the national banks; but it is essential, in view of its immediate bearing upon the passing of the act of 1863, to have at least a conspectus of banking in the generation before the war.

§2. The most successful banking system in the East, perhaps with the exception of those already described in New York, was the Suffolk in New England. The distinctive feature of the Suffolk system was a central point of redemption—the city of Boston—where the Suffolk Bank acted in a manner similar to a clearing-house, by redeeming the notes, at par, of practically every bank in New England. Many of these banks had received their charters under laws quite different from that under which the Suffolk was organized. The limits of note-issue varied in the several states; and often differed in the same state. The ratio of notes to capital was as low as twenty per cent. in Rhode Island to as high as two hundred per cent. in Vermont.[1] Moreover, there was no uniformity in the various state laws with respect to shareholders' liability, and often no such liability at all; no uniform requirements as to lawful reserve; and no adequate provision for the redemption of notes, prior to the establishment of the Suffolk Bank. It is not to be wondered at, therefore, that the notes of good and bad banks circulated in Boston at a discount of one-half to five per cent. or more, according to the difficulty of effecting redemption.[2]

The secret of the success of the Suffolk Bank lay in the

[1] *Roguet's Register*, vol. 2, p. 348.

[2] Sumner, *History of Banking in the United States*, p. 168.

policy it inaugurated of redeeming the notes of New England banks at par. The bank performed this service in consideration of a certain sum, which was to be kept on deposit with it, free of interest, by the banks which made use of its facilities in this way.

The undertaking was at first strongly opposed by the country banks, since it tended to restrain their circulation and reduce their profits. They thought it oppressive, and protested against the injustice of being compelled to redeem their notes at Boston, as well as at their own counters. They declared it impossible to maintain this double system of redemption. No bank, however, was obliged to enter the system; but in the case of those which refused, their notes were bought at a discount in Boston and assorted and presented to them at their own counters for redemption. This brought the recalcitrant banks to time, and practically all accepted the Suffolk plan.[3].

In 1860 there were 506 banks in the association. Their circulating notes averaged in 1850-60 some $40,000,000; and the annual redemption reached the enormous sum of $400,000,000. A note, on the average, remained in circulation about thirty-six days.[4] Under such a scheme of redemption inflation was impossible.[5]

Unfortunately, however, the East was not entirely free from the operations of unscrupulous bankers.[6] In New York one of the most flagrant abuses was that of "shaving" the notes. The method followed was to locate a bank in some obscure village, and then to charge a percentage in redeeming the notes at an

[3]*Ibid.*, p. 169. The country banks at first called the associated banks "The Holy Alliance" and other harsh names; but in the end they themselves were strong supporters of the system.

[4]Under the bond-secured system of to-day the average time a note remains in circulation is about 512 days—nearly two years. This means that practically no redemption is effected except when a note wears out.

[5]*Vide Chicago Evening Post* (financial supplement), Feb. 15, 1908, article by J. T. Talbert, vice-president Commercial National Bank of Chicago.

[6]So unfortunate had been the experience of some states that at one time there were no banks whatever in Florida, Texas, Arkansas, Illinois, Wisconsin, Iowa, Minnesota, Oregon, California and the District of Columbia. *Vide, Report of the Secretary of the Treasury*, 1852, p. 15.

office in Albany or New York.[7] The comptroller protested against this, in his report of 1847; and in the following year an attempt was made to suppress it. In 1851 a supplementary act was passed providing for the redemption of country circulation at New York, Albany or Troy at not more than one-fourth of one per cent. discount. This effectually closed the door against this practice in the state.[8]

§3. Banking in the West was, on the whole, in a chaotic condition, and much less effective than in the East; but there were exceptions. In Pennsylvania a general law was passed in 1850.[9] No safety-fund or securities safeguarded the notes issued. It provided, however, for a system of redemption similar to that of the Suffolk Bank. Central banks of redemption were established at Philadelphia and Pittsburg. This section of the law was repealed in the panic year of 1857. In 1858 the banks of Philadelphia tried to force the country banks to redeem their notes in that city. All notes of banks east of the Alleghanies were redeemed at the Farmers and Mechanics' Bank at one-quarter of one per cent. discount. The country banks, however, became restive under this arrangement; and in May, 1859, it came to an end.[10] Had the plan been followed from its inception in 1850, the people of Pennsylvania would have been spared heavy losses.[11]

[7]Sumner, *op. cit.*, p. 419.

[8]Instances of criminal banking continued to appear from time to time. The following is a typical example (Hunt's Merchants' Magazine, vol. 32, p. 227): The Lewis County Bank got into difficulties November, 1854; and its cashier reported that the assets consisted of two dollars in specie, desks and counters valued at $100, and a banking-house worth $400 above the mortgage upon it. Against this there were a note circulation of $125,283 and a capital stock of $100,000. There was in the hands of New York agents $221,310, of which $103,806 was bills receivable and the remainder "on account." Of the bills receivable $100,000 was on an insolvent drawer. The New York agents denied having any money "on account." As they were also the holders of the capital stock they assigned, and a receiver was appointed. What he was to receive was mysterious.

[9]*Bankers' Magazine*, vol. ix, p. 487.

[10]*Bankers' Magazine*, vol. xiii, pp. 314, 996; vol. xviii, p. 835.

[11]For example, a writer in the Bankers' Magazine (vol. 14, p. 75) says: "The currency of several Pennsylvania banks recently established

The State Bank of Ohio was also one of the most successful banks of the West.[12] The bank was not, as its name might imply, an institution of the state. Branches of the main bank were established directly under its control. For this purpose the state was divided into twelve districts, with a number of branches having a fixed amount of capital in each. A bank organizing under this law had the option of doing business in connection with the main system or of operating independently. The capital of independent banks was to range between $50,000 and $500,000, and of branches between $100,000 and $500,000. A board of control was provided, having supervisory powers over branch banks. Each bank redeemed its own notes, on demand, in specie. Every branch was obliged to give to the board of control, as a guaranty for its note issue, the equivalent of ten per cent. of its circulation in money or in bonds of Ohio or of the United States.[13] In the case of independent banks the total circulation was secured by bonds.

In 1851 the legislature enacted a free-banking law. This made four distinct systems operative within the state—that established before 1845; the State Bank; the independent banks; and the free banks.

Notwithstanding these serious attempts to provide safe and adequate banking facilities for her people, Ohio was continually made to suffer from the fraudulent practices of unscrupulous bankers who paid the publishers of "bank note detectors" large sums to quote their notes "right."[14] The practice was common in the West. The Governor of Indiana, referring to a similar matter in 1853, said: "The speculator comes to Indianapolis with a bundle of bank notes in one hand and the stock in the other; in twenty-four hours he is on his way to

is looked upon with distrust. Several of the banks alluded to have made no arrangements for redeeming their notes; and, in consequence, they have little credit. Others, which have provided funds in New York for the redemption of their notes, are received here with but little better favor."

[12] *Vide, Report of the Comptroller of the Currency*, 1876, p. 144.

[13] Sumner, *op. cit.*, p. 439.

[14] *Bankers' Magazine*, vol. xiv, p. 153.

some distant part of the Union to circulate what he denominates a legal currency authorized by the legislature of Indiana. He has nominally located his bank in some remote part of the state, difficult of access, where he knows no banking facilities are required, and intends that his notes shall go into the banks of persons who will have no means of demanding their redemption."[15] Well might the message have been pessimistic in tone; for although, in some respects, Indiana was more fortunate than her neighbors in her banking experience, yet she had suffered tremendous losses. By 1857 ninety-four banks had been organized in that state under a free-banking law. They had a nominal capital of some thirty-five millions, and a note issue of about nine millions. Already fifty-one had failed; and their notes were selling in Cincinnati at from five to eighty-five per cent. discount. These banks had been built up, in part, the one upon the other. This operation was called "shingling."[16] McCulloch tells of a man who bought bonds with notes, deposited the bonds in exchange for notes, and repeated the process. With $10,000 he got out $600,000 of circulation, chiefly in inaccessible places.[17]

Illinois adopted a general banking law in 1851.[18] It was subjected to a popular vote and approved. From 1858-61 the bank note currency of this state fell into the utmost confusion. The following is a picture of an Illinois bank at this period: "A frame house, a counter so high that you can hardly lay your wrist on the sharp edges of it, and so narrow that but one man can approach at a time. The specie scoop hangs high up, like the laws of Nero, but unlike them covered with cobwebs. Your check is cancelled in deadly silence. You hear some one fumbling behind a green screen. A package of shinplasters, as thick as a bull's horn, and twenty-five cents in silver, are handed to you for your inconsiderable check. The bundle is tightly laced, the notes are inside, so that with the other inconveniences

[15] *Report of the Comptroller of the Currency* (1876), p. 149.
[16] *Bankers' Magazine*, vol. xii, p. 165.
[17] McCulloch, *Men and Measures*, p. 126.
[18] Sumner, *op. cit.*, p. 448.

you can hardly count them. You open the bundle and sift out the Turkham's Almond Trees and Wisconsins, and you are peremptorily told that there is no use in counting for that is all you can get."[19] Another example of banking methods in Illinois, as late as 1859, may be given in the words of a writer of the time.[20] "Some of the banks of Illinois, to avoid redeeming their notes in specie, resort to all sorts of expedients. . . . Not long ago, two bankers of that state made up packages of five or six hundred dollars each, of the bills of the Reaper's Bank, Fairfield, Illinois, and sent them down to that institution for redemption. The cashier of the bank commenced paying them one at a time, in small silver coin; the consequence of which was, that at the close of the day, there still remained a large quantity of the bills unredeemed. These bills were protested, and the auditor applied to, as usual, to sell the securities of the bank, lodged in his hands, which consisted of United States bonds. Before he could do so, hwoever, the Reaper's Bank served three injunctions upon the auditor, obtained from the Superior Court of Chicago, enjoining him from selling the securities of the bank, on the alleged grounds that the protest was illegal." Similar instances of unscrupulous methods adopted by bankers in Illinois could be greatly multiplied. Needless to say, the notes of many of the banks there passed at a heavy discount.[21]

As was briefly noted elsewhere, for other purposes, Michigan passed a free-banking law in 1837. The masses were obsessed with the idea that the cause of "hard times" was lack of currency; and the law seemed to make for them an easy road out of their difficulties. All provision for maintaining a specie reserve was nullified by the enactment of June 22, 1837, which authorized the suspension of specie payments until May, 1838.[22] This presented an unrivalled opportunity for the unscrupulous

[19] *Hunt's Merchants' Magazine*, 1858, p. 264.

[20] *Bankers' Magazine*, 1859, p. 487.

[21] *Bankers' Magazine*, vol. xvii, p. 396. See also H. Baker, *Banks and Banking*, p. 26.

[22] *Senate Ex. Document* 38, 52d Congress, p. 77.

speculator. Further latitude was given in the provision that each subscriber to the stock of the bank might pay in ten per cent. in specie, and ten per cent. every six months thereafter. The investigation of the bank commissioners, later, showed that there was an almost complete contempt for this provision of the law. In many cases instead of specie, "specie certificates" were paid in. Often personal notes were taken and held as "specie."[23] The Farmers Bank of Oakland had $25,000 of these certificates, and $5,000 in specie. This was borrowed from another bank, paid in three times, and counted as $15,000. The Wayne County Bank had $30,000 in certificates; and began operations on the checks of shareholders—which were never paid.[24] The furnishing of certificates of deposit and the loaning of specie became an established business in itself. Close watch was kept upon the bank commissioners, so that specie might be transported from a bank already inspected to one which was next to be visited. Gold and silver circulated with astonishing rapidity at such times; and at each bank in turn stood an official who was ready to swear that the *bona fide* ownership was vested in his bank. "Sometimes it passed the commissioner by rapid transit on the road; sometimes it was transported by night; sometimes, arrived too late, it was handed in at the back door of the banking house while the examination was in progress."[25]

At the January term of the Supreme Court in 1844 a suit was brought upon a draft drawn by a cashier of one of these institutions. It was then decided that an act for the reorganization of the banks in Michigan was null and void, because it conflicted with that provision of the constitution of 1835 which required all acts of incorporation to be passed by a two-thirds majority of the legislature; a provision which, it was held, plainly contemplated that each incorporation should be separately considered and passed upon. The banks which had come

[23]Alpheus Felch: *Early Banks and Banking in Michigan* (reprinted in Senate Ex. Document 38, p. 79).

[24]*Ibid.*

[25]*Ibid.*, p. 82.

to be known as "wild cats" were utterly swept out of existence. Those which had attempted to meet their obligations had been in a state of suspension for some time; but further effort at recuperation was now abandoned. The notes of the banks became worthless; and the losses were enormous.[26] A number of the chartered banks had been as badly managed as the "wild cats," and some went down with them. Those that succeeded in preserving their credit were obliged for a time to avail themselves of legislative permission to suspend specie payments. Specie disappeared altogether from circulation. The safety-fund banks of New York and the State Bank of Indiana had the general confidence of the people, and their notes circulated widely in the state. But banks of doubtful standing in other states not infrequently succeeded in keeping many of their notes in circulation through arrangements with dealers in Michigan; whereby the latter, in consideration of exceptionally favourable loans, made public announcement that they would receive the notes of the former in exchange for merchandise or in payment of debts. The dealer expected, however, to rid himself of the notes as quickly as possible. Naturally, a general practice of barter in the common transactions sprang up. Every store became a place of exchange where the merchant disposed of his goods for wheat and other grains; for wool, hides, butter—in truth, nearly everything of which the farmer had to dispose. The miller took his toll in kind for grinding grain; the blacksmith accepted pay in potatoes and other products of the farm. Trade in prosperous communities took on the form of exchange practised in frontier communities.[27] It was not until 1849 that steps were taken to organize more banks; although the population had greatly increased. In 1857 an act for the purpose of placing banking on a firmer basis was passed, and approved by the people. Any person, or number of persons, complying with its provisions, could incorporate a bank. The capital stock was not to be less than $50,000; three-

[26]Cooley, *State Banks of Issue in Michigan*, p. 12.

[27]Cooley, *op. cit.*, p. 14.

fourths of it could be invested in bonds of the United States, or of specified states, for the purpose of securing the notes. Banks were slow in organizing, however, and paper currency continued to be supplied in the main by banks located elsewhere. In 1861 constitutional changes were made which emphasized the determination of the people to have no more fraudulent banking.[28]

In other western states during this period banking was a burning issue. In 1859 meetings were held at St. Paul, protesting against the further issuing of notes on certain bonds.[29] The Governor of Arkansas complained bitterly that his state was full of foreign notes, although it had no bank and was determined not to have any.[30] A little earlier—August, 1858—a number of bankers at Chicago threw out the notes of twenty-seven Wisconsin institutions, because the notes came from banks located at inaccessible points. These banks had no apparent capital, did no banking business, and provided no means whatever for the redemption of their notes.[31] This action on the part of the Illinois bankers led to the promotion of an association of forty-five Wisconsin bankers which adopted retaliatory measures. Similar methods were followed by bankers in almost every western state, partly in self-defence and partly in retaliation.

The financial centres of the West were filled with brokers' offices; and commerce was compelled to pause at the gates of the cities to pay tribute. The burden was rapidly becoming unbearable when unforeseen events unexpectedly provided a solution of the problem. These were the outbreak of civil war and the financial exigencies occasioned by that great struggle. It will be necessary to describe somewhat in detail the financial

[28] *Hunt's Merchants' Magazine* (1854), p. 718, gives a further account of the state of banking in Michigan, and other western states.

[29] *Bankers' Magazine*, vol. xiv, p. 410.

[30] Sumner, *op. cit.*, p. 416.

[31] *Bankers' Magazine*, vol. xiii, p. 235.

aspects of the war, in order that the conditions under which the national banking system was inaugurated may be fully understood. The crisis of 1860, coming as it did immediately before the outbreak of the war, threw into confusion the financial and industrial affairs of the nation at the most inopportune time. The following chapter will deal with this crisis, and indicate in addition the industrial condition of the country at the outbreak of hostilities.

CHAPTER III.

THE CRISIS OF 1860 AND THE FIRST ISSUE OF CLEARING-HOUSE CERTIFICATES.

§1. The causes of crises are so subtle in nature that any attempt to foretell fluctuations in the financial world might well be considered hazardous. No one in the opening months of the year 1860 thought of doubting the continuance of the rising tide of prosperity which had begun to gather strength the year before. And yet the closing months of the year saw such a destruction of trade and credit, and the downfall of so many powerful houses, that the financial situation in New York and, indeed, throughout the United States generally, occasioned deep anxiety to the financiers of the world. This revulsion is in itself worthy of attention as a study of a financial panic; but it is of still greater historical interest to the student of credit and crises because it was the first occasion, in this country, of the issue of clearing-house certificates as a means of checking the course of liquidation.

As will be shown hereafter, the panic was caused by the rupture of business relations between the North and the South, and aggravated by the suspension of normal trade relations between the East and the West. In order that the causes that occasioned the revulsion may be clearly apprehended, it will be necessary, first of all, to describe the condition of industry and agriculture in the South and West. In doing so, the inquiry will be confined to the decade 1850-60.

§2. The state of agriculture in the South may first be noted. Cotton was king of all the crops below Mason and Dixon's line. During the decade it had increased greatly in value and volume. The rapid recovery of the South from the destructive panic of

1857 was due largely to the immense value of this crop.[1] Mississippi produced more cotton than any other state. In 1860 her harvest of cotton was greater than that of the entire United States in 1850.[2] The following figures show the extent of this crop in the years 1856-60.[3]

TABLE I. COTTON CROP.

Year	Bales
1856-57	2,937,519
1857-58	3,113,962
1858-59	3,851,481
1859-60	4,675,770

Not only did cotton bring wealth to the South, but thousands of workmen in the North and in Europe found employment in transforming it into the finished product. When war broke out many southern newspapers confidently predicted that the lack of raw cotton would cause the closing of many factories in the North; and that the consequent pressure of the unemployed would soon force northerners to sue for peace.

But there were other indications of agricultural prosperity in the South in addition to the cotton crop. Rice and tobacco were two other important products. The yield of rice, however, had diminished considerably during the decade.[4] Tobacco, on the contrary, had increased greatly in amount and value. In 1850, 90,961,429 pounds were produced; and in 1860, 203,642,093 pounds.[5] It should be noted, too, that the raising of live stock was an important branch of agriculture there. In this respect, its interests were approximately as great as those of all the remaining states in the Union together.[6] That the South

[1] *Bankers' Magazine* (New York), 1860-61, vol. xv, p. 514.

[2] *Eighth Census* (1860), "Agriculture," p. 94 of the Introduction.

[3] *Bankers' Magazine*, vol. xv, p. 542.

[4] *Eighth Census* (1860), "Agriculture," p. 95.

[5] *Ibid.*, p. 294.

[6] *Ibid.*, pp. 192-195.

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was prosperous is indicated, also, by the upward trend in the value of its farm lands.[7] In this, to be sure, it merely shared in conditions which were general throughout the country.[8]

Turning to industry, it must be acknowledged that the South did not keep pace with the marvelous industrial expansion of the North.[9] Yet it was not wholly untouched by the industrial forces which were transforming the rest of the country. For example, considerable progress had been made in railway construction; as may be seen from the following table:[10]

TABLE II.

MILES OF RAILROAD IN UNITED STATES 1850 AND 1860.

States	No. Miles in 1850	No. Miles in 1860	Increase in Mileage
Southern States	2,335	10,712	8,376
New England States	2,506	3,669	1,162
The remaining states	3,746	16,210	12,464

The amount of capital invested in manufacturing had increased from $96,615,214 in 1850 to $159,496,592 in 1860.[11] The latter sum was small indeed, in comparison with that invested in the North. The Northwest and South, however, were composed essentially of agricultural states; and a comparison between the amounts of capital invested in these two sections of the country will prove helpful in understanding their industrial development in 1860. These data are given in the following table:[12]

[7] *Eighth Census* (1860), "Agriculture," p. 7.

[8] *Ibid.*, p. 7, and *Seventh Census* (1850), p. 82 of the Introduction.

[9] Taussig, *Tariff History of the United States*, p. 73; Bullock, *Economics*, p. 27; Woodrow Wilson, *Division and Reunion*, pp. 127, 212, 245; McMaster, *History of the United States*, vol. ii, p. 14; Cairne's "Slave Power," *Harper's Magazine*, vol. xxix, p. 123.

[10] Compiled from statistics in *Preliminary Report of the Census*, 1860, pp. 234, 235.

[11] *Eighth Census* (1860), "Manufactures," pp. 729, 730.

[12] The table is from Dr. Dyer, *Democracy in the South before the Civil War*. I have verified the figures given by consulting the *Eighth Census* (1860), "Population," p. 598; and "Manufacturers," pp. 729, 730.

TABLE III. AMOUNTS OF CAPITAL INVESTED IN NORTHWEST AND SOUTH, 1860.*

Maryland	34.8	**Tennessee**	17.7
Michigan	30.4	**Alabama**	17.0
Ohio	24.4	Illinois	16.0
Virginia	24.3	**North Carolina**	14.6
Florida	23.8	Indiana	13.8
South Carolina	23.0	Minnesota	13.8
Kentucky	21.0	**Mississippi**	13.3
Wisconsin	20.4	Iowa	10.7
Louisiana	19.0	**Texas**	7.7
Missouri	18.7	**Arkansas**	4.0
Georgia	18.3		

*The quantities in this table are expressed in terms of millions of dollars, five ciphers being omitted.

Then, as now, the industrial expansion of the South was retarded by an insufficient supply of labor. It is significant to find that, of the immigration into the United States previous to 1860, the North had received practically all. Thousands of energetic workmen from Europe came to the United States every year; but nearly all settled in the cities of the North or on the farms of the West.[13]

The South had made considerable progress in banking; although it must not be forgotten that many of the banks there were as notoriously bad as those in the western states. The Louisiana banking system, however, was one of the best in the country. Under this system, adopted in 1842, Louisiana had become in 1860 the fourth state in the Union in point of banking capital, and second in the amount of specie held.[14] Increase

[13]See *The International Review*, 1881, pp. 88-96. There Professor J. Laurence Laughlin discusses the reasons for this state of affairs. See also the *Ninth Census*, in which General Francis A. Walker gives a colored map indicating the location of the foreign-born population about this time. It may be noted here that the South had quite an extensive list of manufactures, though on a comparatively small scale. The *Eighth Census* (1860), pp. 604-69, enumerates the following manufactures among others: Steam engines, tobacco, carriages, wagons, leather, flour, meal, sawed lumber, woolen goods, cotton goods, boots and shoes, clothing, wool-carding, saddlery and harness, paper, printing materials, hats and caps, iron bloom, bar iron, sheet and railroad iron, salt, hemp and manilla cordage, coal and turpentine.

[14]The principal features of the act of 1842, which established the system, were the ofllowing: (1) The specie reserve was to be equal to one-third of all demand liabilities; (2) the other two-thirds of the demand liabilities were to be provided for in the form of "liquid" or

in the banking business is, however, best shown by expansion in loans, discounts, and deposits; and not by growth of capital stock. The following table presents a comparative statement of the condition of banking in the various sections of the country during the years 1854-1861.[15]

TABLE IV.

BANKING CAPITAL, LOANS AND DISCOUNTS, AND DEPOSITS IN THE UNITED STATES, 1854-61.*

Year	Eastern States	Middle States	South'n States	Southw't States	Western States	United States
CAPITAL						
1854155	101.8	120.7	49.2	41.0	19.3	332.1
1855-56	110.4	125.9	48.6	41.8	16.9	343.8
1856-57	114.6	140.2	50.5	44.6	20.7	370.8
1857-58	117.2	154.4	52.0	49.6	21.2	394.6
1858-59	119.5	156.3	48.5	54.2	23.1	401.9
1859-60	123.7	160.0	56.2	62.9	26.5	429.5
1860-61	123.7	160.0	56.2	62.9	26.5	429.5
LOANS AND DISCOUNTS.						
1854-55	173.5	241.6	69.5	64.3	26.9	576.1
1855-56	177.4	279.2	75.8	73.5	28.1	634.1
1856-57	187.7	299.8	82.4	82.8	31.6	684.4
1857-58	177.8	247.6	70.0	64.6	22.9	583.1
1858-59	179.9	284.7	77.0	85.9	29.4	657.1
1859-60	190.1	289.6	82.2	101.4	28.4	691.9
1860-61	194.8	304.2	79.2	89.0	29.3	696.7
DEPOSITS.						
1854-55	29.9	117.4	11.6	19.7	11.6	190.4
1855-56	31.5	127.4	12.9	26.3	14.4	212.7
1856-57	34.5	139.8	15.1	26.5	14.2	230.3
1857-58	28.1	113.8	13.1	22.3	8.3	185.9
1858-59	41.8	150.6	18.1	38.5	10.3	259.5
1860-61	41.3	145.8	18.2	37.9	10.4	253.8

*The quantities in this table are expressed in terms of millions of dollars, five ciphers being omitted.

"quick" assets—namely, commercial paper having not more than ninety days to run; (3) all commercial paper had to be paid at maturity. If an extension of term was asked for, the account of the party had to be closed, and his name sent to other banks as a delinquent; (4) all banks were to be examined regularly by a board of state officers. See Horace White, *Money and Banking*, pp. 366, 367.

[15] *Finance Report*, 1876, pp. 201, 202.

As had been said, the panic was aggravated by the suspension of normal trade relations between the East and the West.[16] To understand this clearly it will be necessary to describe, briefly, the extent of the development of the West, and its economic relations with the East.

The interests of the West were mainly agricultural. It furnished the East with breadstuffs, and materials for manufacture, and received in return farm implements, clothing, shoes, and other finished products. Likewise it exchanged wheat, flour, cheese, and other foodstuffs for the tobacco and rice of the South. Its export trade to Europe was carried on chiefly through commission merchants in New York. This export trade, though large, was insignificant in comparison with its trade with the East and South. For example, the single state of Illinois produced 23,837,023 bushels of wheat in 1860; but the whole amount of wheat, including that reduced to flour, exported from the United States in the same year was only 17,213,133 bushels.[17]

The people of the West were active, intelligent, and industrially progressive. They were eager to adopt the newest agricultural machinery, and had no inhibiting prejudices such as obtained in other sections, to overcome. Through their industry farm lands increased greatly in value during the decade,[18] and evidence of their wealth may be seen in the great crops of grain harvested. The increase in the production of wheat, then

[16] By the "West" is meant the following states: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Ohio, Wisconsin, and Nebraska.

[17] *Eighth Census* (1860), "Agriculture," p. cxliv.

[18] *The Eighth Census*, "Agriculture," Introduction, p. vii, gives the following data on the land of the West in 1860:

VALUE OF LAND IN THE WESTERN STATES, 1860.

State	Improved.	Unimproved.	Cash Value.
Ohio	$12,625,394	$7,846,747	$678,132,991
Illinois	13,096,374	7,815,615	408,944,033
Indiana	8,242,183	8,146,100	356,712,175
Wisconsin	3,746,167	4,147,420	131,117,164
Iowa	3,792,792	6,277,115	119,809,547
Michigan	3,476,296	3,554,538	160,836,495
Minnesota	556,250	2,155,718	27,505,922

as now one of the great crops of the West, had been phenomenal.[19] Already, too, the western plains were bringing forth immense crops of corn—since become the most valuable agricultural product of the United States.[20] Oats also was an important western crop.[21]

Among other important subsidiary agricultural interests may

[19]The following table shows the amount of wheat grown in the West in the two years 1850 and 1860, *Eighth Census*, "Agriculture," Introduction, pp. xix, xx:

WHEAT CROP IN WESTERN STATES, 1850 AND 1860 (BUSHELS).

State	1850	1860
Illinois	9,414,575	23,837,023
Indiana	6,214,458	16,848,267
Wisconsin	4,286,131	15,657,458
Ohio	14,487,351	15,119,047
Iowa	1,530,581	8,449,403
Michigan	4,925,889	8,336,368
Minnesota	1,401	2,186,993

[20]The following table shows the amount of corn grown in the two years 1850 and 1860, *Eighth Census*, "Agriculture," Introduction, pp. xlix, l:

CORN CROP IN WESTERN STATES, 1850 AND 1860 (BUSHELS).

State	1850	1860
Illinois	57,646,984	115,174,777
Ohio	59,078,695	73,543,190
Indiana	52,964,363	71,588,919
Iowa	8,656,799	42,410,686
Michigan	5,641,420	12,444,676
Wisconsin	1,988,979	7,517,300
Kansas	.....	6,150,727
Minnesota	16,725	2,941,952
Nebraska	.....	1,482,080

[21]The following are the figures for oats, *Eighth Census*, "Agriculture," Introduction, p. xlv:

OAT CROP IN WESTERN STATES, 1850 AND 1860 (BUSHELS).

State	1850	1860
Ohio	13,472,742	15,409,234
Illinois	10,087,241	15,220,029
Wisconsin	3,414,672	11,059,260
Iowa	1,524,345	5,887,645
Indiana	5,655,014	5,317,381
Michigan	2,866,056	4,036,980
Minnesota	30,582	2,176,002
Nebraska	.....	74,502
Kansas	.....	88,325

be mentioned the making of butter and cheese.[22] These dairy products brought millions of dollars into the pocket of the farming population. The development of the live-stock industry already foreshadowed the importance it was to assume in our own time.[23]

Towns and cities had sprung up on all sides. The growth of Chicago is typical of the advance of the West. In 1838 the number of bushels of wheat sold on the Chicago market was 38; and in 1860 it had grown to 16,054,379.[24] This city had thus become the greatest exporting wheat market in the world.[25]

To carry their produce to market the people of the West for many years were compelled to use the Mississippi. But with the era of railroad building, which began in 1849, more direct

[22]The following data are taken from the *Eighth Census*, "Agriculture," p. lxxxiii:

PRODUCTION OF BUTTER AND CHEESE IN THE UNITED STATES, 1850 AND 1860 (POUNDS).

State	Butter.		Cheese.	
	1850	1860	1850	1860
Ohio	34,449,379	48,543,162	20,819,542	21,618,893
Illinois	12,526,543	28,052,551	1,278,225	1,848,557
Michigan	7,065,878	15,503,482	1,011,492	1,641,897
Wisconsin	3,633,750	13,611,328	400,283	1,104,300
Iowa	2,171,188	11,953,666	209,840	918,635
Minnesota	1,100	2,957,673	.....	199,314
Kansas	.....	1,093,497	.....	29,045

[23]The following are the figures for the live-stock industry, *Eighth Census*, "Agriculture," p. cxxvii:

VALUE OF LIVE STOCK IN WESTERN STATES IN 1850 AND 1860.

State	1850	1860
Ohio	$44,121,741	$80,384,819
Illinois	24,209,258	72,501,225
Indiana	22,478,555	41,855,539
Michigan	8,008,734	23,714,771
Iowa	3,689,275	22,476,293
Wisconsin	4,897,385	17,807,375
Minnesota	92,859	3,642,841
Kansas	none	3,332,450
Nebraska	none	1,128,771

[24]*Ibid.*, p. xlii.

[25]*Ibid.*

communications were established with the East. In the decade 1850-60, 9,119 miles were built in six western states.[26]

Having made this preliminary survey of the economic development of the South and West during the years immediately preceding and including the panic year of 1860, it is desirable briefly to indicate the course of trade during that period. The foreign trade is especially significant, and is summarized in the following table.[27] As the fiscal year ended in June, the figures for 1858 include returns for the latter half of the abnormal year of 1857.

TABLE V.

FOREIGN TRADE OF THE UNITED STATES, 1857-61.

Year	Exports	Imports	Excess of Exports	Excess of Imports
1857	$293,823,760	$348,128,342	.....	$54,304,582
1858	272,011,274	263,338,654	$8,672,620	.....
1859	292,902,051	331,333,341	.....	38,431,290
1860	333,576,057	353,616,119	.....	20,040,062
1861	219,553,833	289,310,542	.....	69,756,709

It will be seen from the table that imports of merchandise for the fiscal year 1858 fell off $85,000,000. Add to this sum $6,000,000, the value of imports which were re-exported, and the imports for consumption fall $91,000,000 below the figures for 1857. Europe also had suffered in the panic of 1857; and during the succeeding year her purchases of American goods fell off by $21,000,000.[28] There was, however, an increase of sales in 1859, the value of exports being almost identical with that for the fiscal year 1857. Imports in 1859 fell short of the

[26]The following table shows the immense development during the decade, *Eighth Census*, "Agriculture," p. cxlvii:

MILES OF RAILROAD IN WESTERN STATES, 1850 AND 1860.

State	1850	1860	Increase in Mileage
Ohio	575	2,999	2,424
Illinois	110	2,867	2,757
Indiana	228	2,125	1,897
Wisconsin	20	922	902
Michigan	342	799	457
Iowa	...	679	679

[27]*Statistical Abstract of the United States* (1878), p. 28.

[28]*Ibid.*, p. 28.

high mark reached in 1857 by only $$17,000,000. Business continued during 1859 to expand by leaps and bounds, and never in the history of the country had the outlook been more encouraging than in the first few months of the disastrous year 1860. During the fiscal year which ended June 30, 1860, foreign trade reached the highest mark yet attained, exports standing at $333,000,000 and the imports at $353,000,000.[29]

It is of great importance to understand the condition of the New York City banks during the years 1857-1860. Since the panic of 1857 they had been accustomed to keep on hand an amount of specie equal to about one-fifth of their cash liabilities.[30] This average amount of specie was $20,000,000; but at one time—August, 1858—the specie reserves stood at $35,000,000. The banks began to expand their loans at the beginning of the year 1858.[31] The loans stood at $98,000,000 in January of that year, and mounted steadily to $127,000,000 in November. This indicated an increasing confidence in the permanency of the revival in business.

The banks continued to expand their loans in the following year until the month of June, when there was a decided contraction. The country was buying heavily from Europe, and there were many accounts to settle abroad. In addition, war had broken out between France and Sardinia on the one hand and Austria on the other. At the outbreak of hostilities many European houses failed, especially in Germany, Austria, and Italy.[32] It became difficult to sell exchange on these countries, as brokers were not certain that the drafts offered for sale had not been drawn on houses that were now in liquidation.

[29] *Ibid.*, p. 28.

[30] See the data in table vii.

[31] See table.

[32] *Hunt's Merchants' Magazine*, vol. xli, p. 76.

§3. It has been noted that the New York banks, which had been expanding their loans during 1858 and the early months of 1859, began in June, 1859, to contract. In the face of heavy imports during the preceding months, a strong demand for foreign acceptances developed; but as this sort of paper had suddenly become of doubtful value, owing to the recent failure of many European houses under the stress of political disturbances in Europe, recourse was had to specie. Drafts approved by bankers brought 11 per cent.[33] Sterling exchange rose from 9¼ on April 1, to 11 per cent. on June 12.[34] The huge war expenditures being made by France at this time made gold dearer in Paris and attracted the precious metal from New York. In addition, Austria and Germany were seeking specie to strengthen their bank reserves.[35] The combined effect of these causes is seen in the money rates in New York, as exhibited in the following table:[36]

[33]*Hunt's Merchants' Magazine*, vol. xli, p. 77.

[34]In early colonial days the Spanish silver dollar, or piece of eight reals, was computed as equal to 54*d.* sterling; or, at par, the pound sterling was equal to $4.44 4/9. When American silver dollars went out of circulation in the United States, as a consequence of the Act of 1834, only gold was in circulation. The American gold eagle (10 dollars) contained 258 grains troy standard, nine-tenths fine; or 232.2 grains pure gold. The English gold sovereign contained 123.274478 grains, troy, eleven-twelfths fine; or 113.001605 grains pure gold. On this basis the English sovereign is at par equal to 4.8665 gold dollars. Inasmuch as the conservative habits of bankers maintained the old reckoning at par at $4.44 4/9 based on the silver dollar, even after gold came into circulation, par in gold was 9½ pe reent. above $4.44 4/9. This 9½ per cent., therefore, never was a premium, but only the sum necessary to raise the obsolete par to the real par in gold of $4.8665. By an Act of Congress, March 3, 1873, the par of exchange between Great Britain and the United States at $4.44 4/9 was changed to the real par of $4.8665.

[35]*Hunt's Merchants' Magazine*, vol. xli, p. 77.

[36]*Ibid.*, p. 79 *et seq.*

TABLE VI.

MONEY RATES IN NEW YORK, 1859.

	Mar. 15	Apr. 15	May 15	June 1	June 15	July 1	July 15
	%	%	%	%	%	%	%
Loans on call, stock securities	4-5	4-5	5-6	6-7	5-6	5-6	5½-6
Loans on call, other securities	4½-6	5-6	6-7	7-8	6-7	6-7	6-7
Prime dinirsed bills, 60 days	4½-5½	5-5½	6-6½	6½-7	7-8	6½-7	6-6½
Prime indorsed bills, 4 to 6 months	5½-6½	6-6½	6½-8	7-8	8-9	7-7½	6½-7
First class single signatures	6-7	6½-7	7-9	8-9	9-10	10-12	10-12
Other good commercial paper	7-8	8-9	9-10	9-10	10-12	10-12	10 12

	Aug. 1	Aug. 15	Sept. 1	Sept. 15	Oct. 1	Nov. 1	Nov. 15
	%	%	%	%	%	%	%
Loans on call, stock							
Names not well known	9-10	9-10	10-12	10-12	12-15	12-15	12-15
securities	6-7	6-7	5½-6	6-6½	5½-7	5-5¼	5-5½
Loans on call, other securities	7-8	7-8	7-8	7-7½	6-7	6-7	5½-6
Prime dinirsed bills, 60 days	6½-7½	6½-7¾	6-7	6-7	6½-7	6½-7½	6-6½
Prime indorsed bills, 4 to 6 months	7-8	7¼-8	7-7½	7-7½	7-8	7½-8	6½-7
First class single signatures	8-9	8½-9¼	8-8½	7½-8	10-12	10-12	7-8
Other good commercial paper	11-13	11½-14	11-14	10-13	10-15	12-15	10-12
Names not well known	12-15	12½-16	12-16	12-15	.....	.....	.....

During the succeeding months of the year exports fell off owing to the diminished foreign demand for American breadstuffs, harvests being abundant in Europe.[37] Smaller exports and large imports involved a prolonged export of gold, which caused some uneasiness.[38] However, peace was suddenly declared in Europe in August, and in the revival of trade the United States participated. Exports increased and in New York the rate of exchange fell. The outflow of specie diminished, and rates on money fell until they were again at the usual level. The following table is interesting as showing the movement of specie during the year, and the amount in the city:[39]

[37] *Ibid.*, p. 332. [38] *Ibid.*

[39] Compiled from *Hunt's Merchants' Magazine*, vol. xlii, pp. 197, 198.

TABLE VII.
MOVEMENT OF SPECIE IN NEW YORK, 1859.*

	Received	Exported	Specie in Sub. Treas.	Total in City
Jan. 8		1.0	4.2	32.6
15	1.3	.2	4.3	33.6
23	...	.5	4.8	34.3
30	1.2	.4	7.2	34.9
Feb. 5	...	.6	8.1	34.0
13	1.3	.3	8.0	33.4
20	1.2	1.0	6.7	33.1
27	...	.3	7.1	33.6
Mar. 5	...	.3	7.1	33.6
12	.9	.3	8.6	34.2
19	...	.8	9.0	34.0
26	...	.2	8.0	34.2
Apr. 2	1.0	1.3	7.6	32.9
9	...	.5	7.2	32.9
16	1.4	1.6	7.0	32.5
23	...	1.4	6.8	32.8
30	1.7	1.6	6.5	32.8
May 7	...	2.1	6.4	32.5
14	1.4	1.9	6.0	31.1
21	...	2.2	5.4	31.5
28	1.9	5.1	4.7	29.1
June 5	...	2.3	4.3	28.0
12	1.5	1.8	3.6	26.7
19	...	1.6	3.6	26.7
25	...	1.6	4.4	26.2
July 2	2.0	1.8	4.0	27.0
9	...	1.3	4.2	26.7
16	1.1	2.4	4.2	27.5
23	...	2.0	5.1	26.3
30	2.1	2.3	5.1	25.8
Aug. 6	...	1.2	5.3	25.4
13	1.8	1.5	5.3	26.0
20	...	1.5	4.9	26.3
27	2.1	1.5	4.8	25.5
Sept. 3	.9	.5	4.8	26.3
10	2.0	2.3	4.9	26.6
17	...	1.7	5.0	21.5
24	...	2.7	5.1	25.8
Oct. 1	...	1.4	5.2	24.4
8	2.8	.7	4.7	24.2
15	1.8	1.4	4.6	24.2
22	...	1.1	4.7	25.6
29	1.8	2.0	4.8	26.0
Nov. 5	...	1.5	4.6	24.8
12	1.5	1.0	5.0	25.2
19	...	1.3	5.6	25.4
26	1.7	...	5.8	24.7
Dec. 3	...	.9	5.8	25.8
10	1.8	.6	6.0	25.8
17	...	.6	6.0	26.4
24	...	.1	6.1	25.7
31	1.4	.3	7.0	26.6
	42.7	69.9		

*The quantities in this table are expressed in terms of millions of dollars, five ciphers being omitted.

As has been intimtaed, the year 1860, destined to witness momentous events in the political and financial world, opened under auspicious circumstances. During the first six months, the trade of the country was beyond all precedent. An immense crop of cotton carried the exports beyond any previous figure. The crops in the West were bounteous. To add to the good fortune of the farmers, the harvests of Europe were a comparative failure. Consequently wheat and flour were in great demand, and the West expected a year of exceptional prosperity.

As the summer went by the commercial and financial outlook of the country continued bright. Money was cheap. The supply of bills on Europe was so plentiful that importers were able to remit with ease. The rate of sterling exchange fell, indicating that the balance due Europe was small. The export of specie declined considerably after September 15.

Then a cloud, dark and portentous, suddenly gathered on the horizon. The presidential election about to be held was being contested over the issue of slavery. The South was more alive to the real question at stake than the North, which was inclined to regard predictions of trouble lightly, as due to the machinations of demagogues.

New York City banks had expanded their loans liberally at the beginning of the year, reaching the sum total of one hundred and thirty million dollars in April, with total reserves amounting to 24 per cent. of deposits and circulation.[40] Loans were somewhat contracted during the next three months; but they again stood at one hundred and thirty millions in August. A vague, undefined feeling of an impending catastrophe was in the air, and beginning with the last week of August the banks contracted their loans at the rate of $1,000,000 per week.[41] On October 6 loans had dropped to one hundred and twenty-three millions.

[40] *Hunt's Merchants' Magazine*, vol. xliv, p. 212.

[41] *Ibid.*, vol. xl, p. 215; vol. xlii, p. 215; vol. xliv, p. 212; also Mitchell, *History of the Greenbacks*, p. 30.

Western banks, in order to move the crops, had in the meantime increased their loans, and extended their circulation. To secure their note issue, many of these banks had deposited in the state treasuries bonds which had been sold by southern states.[42] Yet the West, favored by big crops at home, and poor ones abroad, faced the future with confidence. This feeling spread to the East, and many merchants, anticipating a heavy western demand in the spring of the ensuing year, began to lay in an extra supply of wares.

State elections were held in Pennsylvania on October 9, and the Republican party triumphed. This was understood as a good omen for Lincoln's success as a candidate for the presidency. Southern papers adopted a bitter and menacing attitude, and men prominent in business and public life there threatened secession. On October 22, bids for a 5 per cent. government loan were opened. They were found to be at an average premium of one-half of 1 per cent.[43] The rate was fair, but the limited amount of bids gave evidence that investors were apprehensive of trouble.

Yet there was little stringency in the money market in New York during the month of October. It was far otherwise, however, in the South. There the people were more than apprehensive, they were almost certain that war would soon be a reality. Money rates began to rise. Southern bonds fell in value, and much of the currency of the West, secured by these bonds, kept pace with the decline. Pressure was felt especially in Illinois and Wisconsin. Illinois had about ninety-four banks with a total circulation of some twelve million dollars. About two-thirds of the securities upon which the circulation was based consisted of bonds of Virginia, Missouri, North Carolina, and Tennessee. The suffering that ensued from this vitiated currency was severe, especially on the poorer classes.[44]

[42] *Hunt's Merchants' Magazine*, vol. xliv, p. 76.

[43] *Bankers' Magazine* (New York), 1860-1861, "Notes on the Money Market."

[44] Dunbar, *Economic Essays*, p. 302.

UNIVERSITY OF CALIFORNIA

Abraham Lincoln was elected president of the United States on November 6. Southerners who were federal officers immediately resigned their commissions. The tone of the southern press became bitterly hostile. Bills that were falling due to merchants in New York could not be collected from southern debtors. In turn, exchange on New York could not be cashed in the South. A sharp demand for specie ensued. The precious metal began to flow from New York to Charleston, New Orleans, and Mobile.[45] In ten days this movement carried off, as far as is known, some $3,500,000 in specie, and discount rates began to rise.[46] The appended table indicates the effects of these developments upon money rates in New York:

TABLE VIII.

RATES ON PAPER IN NEW YORK JUNE 1, 1860, TO JANUARY 15, 1861.*

Date	On Call		Indorsed		Single Names	Other Good	Not Well Known
	Stocks	Other	60 days	4-6 m'ths			
1860							
June 1	4¾	6	5	6	6½	8	9
June 15	4¾	5	4½	5	5½	6	8
July 1	5	5½	5	5	5½	7	8
July 15	5	5½	5	5	5½	7	8
Aug. 1	5	6	5	6	6½	7½	9
Aug. 15	5½	6	6	6	6½	8	9
Sept. 1	6	7	6½	7	8	9	12—24
Sept. 15	6	6½	7	7½	6⅛	9	10—10½
Oct. 1	6½	7	6½	6½	8	9	12—20
Oct. 15	6½—7	7—8	6½—7	6½–7½	8—8½	9—10	12—20
Nov. 1	6½—7	7—8	6½—7	7—7½	8—9	10—12	12—15
Nov. 15	7—8	7—9	8—9	9—10	9—12	14—15	15—24
Dec. 1	7—8	9—10	10—12	12—15	15—18	24—36	..—..
Dec. 15	6—7	9—11	12—15	15—18	20—..	..—..	..—..
1861							
Jan. 1	5½–6½	8—10	10—12	13—15	18—..	..—..	..—..
Jan. 15	5—6	6—7	7— 8	8— 9	8—10	12—16	18—24

**Hunt's Merchants' Magazine,* vol. xlvi, p. 198.

New York had always been a large creditor of the South. Bills drawn against the cotton which the South sent to Europe were as a rule sold in New York; the proceeds were used in

[45] *London Economist*, vol. xviii, p. 1359.

[46] Dunbar, *Economic Essays*, p. 302.

part to pay debts of Southerners to northern houses, and in part to purchase northern manufactures. The South now not only repudiated its debts and ceased to buy northern manufactures, but it also, as intimated above, demanded specie in payment for the drafts which New York brokers had accepted. To add to the pressure on New York merchants, they suddenly found themselves with a great deal of repudiated, and consequently worthless, southern acceptances on their hands. This paper was, of cousre, of no value to secure accommodation at the banks.[47] The bankers of New York, too, were doubly injured—first, by the drain on their specie, and secondly, by the depreciation in value of southern paper held.

As noted above, the shock came in the midst of great prosperity. Factories in the North had never been so busy; crops of the West and South were record-breaking. The fear and, at last, the certainty, of a bloody war caused the financial storm to break and spread ruin on every hand. Paper, which in normal times undoubtedly would have been liquidated by the future goods on which it was based, became worthless. Panic ensued.

Western business relations with the East greatly complicated matters. An enormous internal trade was carried on between the West, whose centre was Chicago, and the East, of which New York was the metropolis. It was the custom of New York dealers to buy grain for export by accepting western drafts. They then sold the wheat in Europe for London bills, and met their western obligations by selling their London bills in New York. Suddenly, owing to pressure in the money market, sterling exchange became unsalable except at ruinous rates of discount. Therefore, they were unable to remit to western creditors. In turn, Chicago dealers could not pay the farmers for the grain they had bought; and the farmers were unable to meet their book obligations at retailers' stores. In turn, too, New York wholesale merchants could not make collections from retailers in the West.[48]

It was clearly seen that the only way to check the panic was to be found in an extension of loans by the banks; and in pro-

[47] *London Economist*, vol. xviii, p. 1359 *et seq.* [48] *Ibid.*

viding a market once more for bills of exchange. Accordingly, on November 19, the members of the New York Clearing-House Association met together and agreed to come to the relief of the market by buying $2,500,000 sterling exchange.[49]. Some buyers who had been holding back, reassured by the action of the banks and expecting that rates would become easier, also entered the market. But not much relief was secured, and on the twenty-first affairs became more alarming than ever. The bankers met again on that day to devise some method of relieving the situation.

The low rate of exchange on England at this time precluded shipment of specie thither. The drain to the South had ceased. New York banks now held an amount of specie equal to 22 per cent. of their cash liabilities. The heavy fall in sterling exchange made it certain that gold would soon flow from Europe to America.

The banks wished to extend their loans liberally. In order to effect this end, and to facilitate the settlement of exchanges between the banks themselves, it was decided that any bank in the Clearing-House Association might at its option deposit with a select committee of five members chosen by the Association, any amount it desired of its bills receivable. United States stocks, Treasury notes or approved stocks of the state of New York, and receive in return certificates of dpeosit, on which it would be required to pay interest at 7 per cent. per annum.[50] These certificates were to be in denominations of five and ten thousand dollars, were to be issued up to 75 per cent. of the value of the securities pledged, and could be used to settle balances at the Clearing-House only for a period of thirty days from the date of issue.[51]

A creditor bank was, by this agreement, obliged to accept each day from the Clearing-House such a proportion of the certificates offered as its own balance bore to the total amount settled.[52] It is obvious that under this arrangement some banks

[49] *Hunt's Merchants' Magazine*, vol. xliv, p. 200.
[50] *Hunt's Merchants' Magazine*, vol. xliv, p. 200.
[51] *Ibid.*; see also Dunbar, *History and Theory of Banking*, pp. 79-82.
[52] *Hunt's Merchants' Magazine*, vol. xliv, p. 91.

might be unable to maintain their reserves, if certificates of deposit were used to any considerable extent by debtor banks in settling balances. The banks receiving these certificates were themselves obliged to pay out gold on demand to depositors; thus their own reserves would be depleted, and a new kind of paper would appear in their assets.

To obviate this difficulty, a further expedient was adopted: The specie belonging to the associated banks was to be considered and treated as a common fund for their mutual aid and protection. The committee had power given them to equalize this common reserve by assessment or otherwise.[53] For this purpose it was enacted that each day, before the commencement of business, statements should be made to the committee of the condition of each bank before the commencement of business. These statements were to be sent, with the exchanges, to the manager of the Clearing-House, specifying the following items: (1) loans and discounts; (2) deposits; (3) loan certificates; (4) specie.

This data enabled the committee to determine daily which banks were carrying a disproportionate amount of specie in comparison with other banks in the Clearing-House Association. The common specie reserve was then, according to agreement, equalized among the banks by assessment.[54] At the request of a depositing bank the committee was authorized to exchange any portion of securities on deposit for an equal amount of other approved securities. It also had power to demand additional security, either by an exchange of securities or an increase in their amount. Interest accrued upon certificates was, at the expiration of thirty days, apportioned among the banks which had held the certificates during that time.[55] It was further agreed that after February 1, 1861, every bank in the Clearing-House Association should have on hand at all times an amount of specie equal to one-fourth of its net liabilities; and that any bank whose specie should fall below that proportion should not make loans or discounts until its position

[53] *Hunt's Merchants' Magazine*, p. 91.
[54] *Ibid.*, p. 91. [55] *Ibid.*, p. 91.

in that regard was re-established. To enforce this provision the members of the Clearing-House agreed not to exchange with any bank which should show by two successive weekly statements, that it had violated the agreement.[56]

Under this agreement, certificates amounting to ten million dollars were issued, all to be redeemed by February 1, 1861.[57] This issue marks the turning-point in the panic. In the next week the banks increased their loans rapidly. This continued for several weeks until the decrease of business resulting from the revulsion caused the demand for loans to fall off. The causes which underlay the crisis were still operative, and liquidation was inevitable; but the virtual fusion of the fifty banks of New York into one central bank had, without doubt, prevented the suspension of specie payments, which came thirteen months later during the war. During the period that loans were being rapidly extended, customers usually placed them as deposits on the books of the bank; and very little specie was withdrawn.[58] Many bitter criticisms, however, were directed

[56] *Ibid.*, p. 92.

[57] Dunbar, *The Theory and History of Banking*, p. 82.

[58]
ISSUE OF LOAN CERTIFICATES BY NEW YORK BANKS 1860-1893.
Report of Comptroller of the Currency, 1907, p. 63.

Loan Committee of—	Date of First Issue	Date of Last Issue	Date of Final Cancellation	Aggregate Issue	Maximum Amt. Outstanding
1860	Nov. 23, 1860	Feb. 27, 1861	Mar. 9, 1861	$ 7,375,000	$6,860,000
1861	Sept. 19, 1861	Feb. 17, 1862	April 28, 1862	22,585,000	21,960,000
1863	Nov. 6, 1863	Jan. 9, 1864	Jan. 30, 1864	11,471,000	9,608,000
1864	Mar. 7, 1864	April 25, 1864	June 13, 1864	17,728,000	16,418,000
1873	Sept. 22, 1873	Nov. 20, 1873	Jan. 14, 1874	26,565,000	22,410,000
1884	May 15, 1884	June 6, 1884	Sept. 23, 1886	24,915,000	21,885,000
1890	Nov. 12, 1890	Dec. 22, 1890	Feb. 7, 1891	16,645,000	15,205,000
1893	June 21, 1893	Sept. 6, 1893	Nov. 1, 1893	41,490,000	38,280,000

Loan Committee of—	Date	Rate of Interest	Nature of Collaterals
1860	Dec. 22, 1860	7	United States stocks; Treasury notes; stocks of State of New York.
1861	Feb. 7, 1862	6	Temporary receipts of United States for purchase of Government bonds.
1863	Nov. 27 to Dec. 1, 1863	6	(United States or New York State stocks, bonds, (etc., or temporary receipts as in 1861.
1864	Apr. 20, 1864	6	Same as in 1863; com'tee of that year continued.
1873	Oct. 3, 1873	7	Bills receivable; stocks, bonds & other securities.
1884	May 24, 1884	6	Same as 1873.
1890	Dec. 12, 1890	6	Do.
1893	Aug. 29 to Sep. 6, 1893	6	Do.

For a brief but excellent description of these issues see Dunbar's *Theory and History of Banking*, pp. 83-94.

against the New York bankers because of the arrangement adopted. It was declared that the plan virtually amounted to a suspension of specie payments, since the debts of the banks to each other were no longer settled by specie, but by the pledge of securities. But the public could promptly receive specie on demand; and so long as the convertibility of the bank note was maintained the interests of the public were guarded effectually. As far as the public was concerned, therefore, there was no suspension of specie payments.

On November 24 the Boston banks followed the example of those of New York in so far as to agree among themselves to discount freely. Banks owing balances at the Clearing-House were allowed to settle in their own notes up to fifty per cent. of the balances due, in amounts ranging from ten thousand to one hundred thousand dollars, according to the capital of the bank tendering them.[59] But they did not make a common fund of their specie as did the banks of New York. As the banks refrained from mutual demands for specie, they were able to weather the storm.[60]

Market," also see Dunbar's *Economic Essays*, pp. 309, 310.

It was not possible for some banks in other parts of the country to co-operate as the New York institutions had done. The Farmers' Bank of Virginia, a strong bank with numerous branches, suspended specie payments on November 21. It was followed the next day by most of the other banks of Virginia.[61] The Baltimore banks suspended on the twenty-second; the Philadelphia banks followed on the same day.[62] Specie payments were suspended in St. Louis on the twenty-eighth; the South Carolina banks followed on the twenty-ninth, and the Georgia banks on the thirtieth.[63] It is quite likely that the suspension of southern banks was due in large measure to political policy; although it must be borne in mind that there had been a continual absorption of specie there by individuals for many

[59] *Hunt's Merchants' Magazine*, vol. xliv, p. 77.

[60] *Bankers' Magazine* (New York), 1861-1862, "Notes on the Money

[61] *Bankers' Magazine* (New York), 1860-61, p. 540; also, Dunbar, *Economic Essays*, pp. 309, 310.

[62] *Bankers' Magazine* (New York), 1860-61, p. 540.

weeks. The banks of New Orleans, however, did not suspend until September, 1861; and then only at the request of the confederate government.[64]. In the West the panic was especially severe on those banks that had deposited southern bonds to secure their notes. Chicago bankers, because of the decline in value of these bonds and the consequent depreciation of much western currency, refused to accept such notes except at a heavy discount. This was true particularly of the notes of Illinois, Wisconsin, Ohio, Indiana, and Michigan.[65]

The crisis brought upon the market large amounts of stocks which holders had been obliged to sell at a sacrifice. The number of shares of bank stocks that changed hands weekly in New York before the crisis was not large—about three hundred on the average[66]. As money tightened, holders were obliged to sell; and in one week eight hundred shares were sold at a fall of ten points.[67] Bank stocks were among the first, however, to recover, and made a steady advance to old prices. On November 1, United States 5 per cents. of 1874 were selling at 102. By the close of the month they were selling at 95.[68] The fluctuations and decline in value of state securities, among which may be mentioned the 6 per cents. of Virginia,[69] Tennessee, North Carolina, and Missouri, contributed to the disturbances.[70] Among the most important of the industrials were the coal stocks, but little was done in them.[71]

The railroad stocks had been severely affected in the panic of 1857; and it was not until 1860 that they regained their old positions in the market. The bright prospects for that year had had a very beneficial influence on their stocks; but they were again depressed by the untoward events of November. The earnings of the New York Central for November, 1860, were $810,891 as against $720,202 in November, 1859.[72] Notwithstanding this, the stock fluctuated violently.[73] Erie stood at

[63] *Ibid.*
[64] *Ibid.*, 1861-62, p. 393.
[65] Dunbar, *Economic Essays*, p. 310.
[66] *Bankers' Magazine* (New York), vol. xv, 1860-61, p. 516.
[67] *Ibid.*
[68] *Ibid.*
[69] *Ibid.*
[70] *Ibid.*, p. 519.
[71] *Ibid.*, p. 517.
[72] *Ibid.*
[73] *Ibid.*

34⅞ on the seventh, declined to 26 on the twenty-first, and rallied to 29 at the close.[74] The earnings of this road were $587,242 for October, as against $474,606 in 1857.[75]

The money market during December, following the extension of loans by the banks, recovered from the worst effects of the panic. Money on call was comparatively plenty. In the discount market, however, rates were still very high. Good indorsed paper was hard to negotiate at 15 per cent.; and four- and eight-months paper at 18 per cent. Single names were subjected to 20 per cent. discount; other paper was quoted at 24 to 36 per cent.[76] At these rates very little was discounted, the demand having almost entirely ceased. The great difficulty of selling foreign exchange added to the depression; and sterling exchange was offered at from 100 to 102 on the old par of 109½.[77] The rate for bankers' bills was 104.[78]

The news of the crisis was carried to England by the *Atlantic*, which reached that country on November 30.[79] The next day the *Europa* sailed for New York with $540,000 in specie.[80] The *Persia* followed a few days later with $3,000,000.[81] This move-

[74] *Bankers' Magazine* (New York), vol. xv, p. 518.

[75] *Ibid.* [76] *Ibid.*, p. 341.

[77] *The Bankers' Magazine* (New York), 1861-62, "Notes on the Money Market."

[78] *Ibid.* [79] *Ibid.* [80] *Ibid.*

[81] The specie received, exported, and amount in city for October, November and December, was as follows:

SPECIE RECEIVED, EXPORTED, AND ON DEPOSIT IN NEW YORK CITY, 1860.*

		Received	Exported	In Sub-Treasury	In City
October	7	...	.6	4.9	25.1
"	15	1.9	.0	4.4	24.7
"	20	.8	1.0	4.5	26.6
"	27	...	.3	4.8	27.6
November	3	1.2	.1	5.6	27.8
"	10	...	.1	5.7	26.8
"	17	.9	.1	5.0	24.4
"	24	1.0	.0	4.3	23.0
December	1	.8	.0	3.7	22.2
"	8	...	.0	3.1	21.6
"	15	1.0	.0	2.5	12.0
"	22	...	.0	2.9	23.2
"	29	6.8	.0	2.2	25.4

*Hunt's Merchants' Magazine, vol. xliv, p. 200. The quantities in this table are expressed in terms of millions of dollars, five ciphers being omitted.

ment of specie continued far into 1861. In three months the gold transported from Europe to New York amounted to $12,725,000.[82] The aggregate amount of specie imported in the fiscal year ending with June, 1861, amounted to $40,000,000; and deducting $23,800,000 exported earlier in the year, it appears that the United States had received a balance of $16,500,000.

As the weeks went by it was seen that the country could not recover from this panic by the ordinary course of liquidation. Many losses were final and absolute. It is estimated that northern merchants lost at least $200,000,000 through repudiation of debts by the South.[83]

The return of business to normal relations depended upon the course of the war. It will be necessary now to leave the industrial situation; and to describe briefly the attempts of the government to finance the war, and how this unexpectedly led to the creation of a new banking system in the United States.

[82]Dunbar, *op. cit.*, p. 311. [83]*Ibid.*

CHAPTER IV.

SUSPENSION OF SPECIE PAYMENTS AND THE ISSUE OF UNITED STATES NOTES.

§1. While the events just described were convulsing the business world, the government found itself hard pressed. After war broke out Mr. Chase, whose experience in conducting financial operations had been limited, suddenly found himself called upon to finance one of the greatest struggles known to history. When the financial year ending June 1, 1861, closed, it was discovered that the government had a deficit. It was consequently compelled to go into the market to borrow funds to meet its liabilities.[1]

Already, in March, Mr. Chase had attempted to borrow by advertising $8,000,000 of six per cent. stock. The loan was subscribed twice over; the bids ranging from 85 to par.[2] This appeared to indicate that the people had confidence in the ability of the government to finance the war. All bids at 94 and above were accepted; and the balance was offered in April in treasury notes. Just at this juncture the expedition to relieve Fort Sumter set out; and no enthusiasm was displayed by the people in bidding for the loan. Only one-fifth of the amount offered was subscribed; but the financial interests of New York came to the relief of the market; and, having secured an extension of time, subscribed $5,340,000 to the loan.[3]

The money was soon spent; and on May 11 Secretary Chase offered the balance of the six per cent. stock authorized. Bids came in slowly; and again the banks came to his relief.[4] The Secretary promised to consider bids for treasury notes as well

[1] *Report of the Secretary of the Treasury*, 1861, pp. 30-32.

[2] *Senate Executive Document* No. 2, 37th Congress, 1st session, pp. 32-49.

[3] *Ibid.*, pp. 32-49.

[4] *Hunt's Merchants' Magazine*, vol. xlvii, p. 504.

as for bonds, should that form of security be preferred.[5] Bids ranging from 60 to 93 were obtained for $7,441,000 of the stock, and at par for $1,684,000 of the treasury notes. Thus a considerable sum was secured; but it was soon spent, and Mr. Chase was again compelled to borrow.

Thus the government blundered along borrowing on every occasion of need. It was at this time receiving less than one-quarter of its revenue from taxation, and the remainder from borrowing.[6] At the same time, Chase continued to issue short-time interest-bearing treasury notes in preference to long-time bonds; regardless of the fact that the government would be compelled to redeem its notes while hard pressed for funds.

On July 4 an extra session of Congress was opened. President Lincoln recommended that $400,000,000 and 400,000 men be placed at the disposal of the government. Secretary Chase outlined the financial programme to be pursued.[7] It was estimated that $320,000,000 would be required to meet the expenditure of the ensuing year. Of this sum he thought that not less than $80,000,000 should be provided by taxation, and $240,000,000 through loans. Thus Chase made the mistake at the outset of proposing to borrow three-quarters of the amount needed to wage war, as he doubted the willingness of the people to submit to taxation. Congress concurred with him in his opinion, and the loan bill was hurriedly passed after one hour's debate.[8] A supplementary act was passed very soon afterwards. The two acts gave the secretary power to borrow $250,000,000 for which he could issue (1) 7 per cent. twenty-year bonds at par; (2) 6 per cent. twenty-year bonds at a rate not less than the equivalent of par for the bonds bearing 7 per cent. interest; (3) 7.3 per cent. three-year treasury notes, fundable in 6 per cent. twenty-year bonds; or (4) treasury notes, either bearing

[5] *Senate Executive Document No.* 2, p. 53, 37th Congress, 1st session.

[6] From April to June, 1861, the receipts from customs, sales of public lands, and miscellaneous sources were $5,800,000; from loans, $17,600,000.—Report of Secretary of Treasury, 1861, p. 30.

[7] *Senate Executive Document No.* 2, 37th Congress, 1st session, pp. 32-49.

[8] *Congressional Globe*, 37th Congress, 1st session, p. 61.

interest at 3.65 per cent. and payable in one year, or paying no interest and payable on demand; or (5) 6 per cent. treasury notes up to $20,000,000, payable at any time not exceeding twelve months from date.[9]

The legislature also promptly met Secretary Chase's suggestion to increase the taxes. Both direct and indirect taxes were laid. What strikes us now most forcibly in the plan of finance recommended at the beginning of a great war is the reliance placed upon borrowing to meet extraordinary war expenditures. Taxation was resorted to only to provide funds for the ordinary expenses of the government. It was quickly seen, however, upon the dissolution of the extra session of Congress, that taxation must be resorted to in a large measure even to make the borrowing policy of the government a success. Congress met again in December; and in January, with but six dissenting votes, resolved to levy taxes to secure $150,000,000 additional revenue.[10] Mr. Chase discovered, too, with additional experience, the importance of raising as much revenue as possible by taxation, and urged this point of view upon Congress.[11].

While this legislation was being enacted it was necessary to find money to meet the immediate and pressing needs of the treasury. Chase sold treasury notes, but the amount received was too small to be of any great aid. He then set about the negotiating of a large loan. Europe would not lend;[12] and the outcome of an appeal to the people, under the present conditions, as the market was flooded with both national and state bonds, he considered dubious.[13] He turned, in his despair, to the banks.

Because of the panic the banks of New York found it increasingly difficult to extend their loans. Business was stagnant. From December, 1860, to August, 1861, bank loans in

[9] *United States Statutes at Large*, vol. ii.

[10] *Congressional Globe*, 37th Congress, 2d session, pp. 344, 349, 376.

[11] *Report of the Secretary of the Treasury*, 1863, p. 12.

[12] *London Economist*, 1861, pp. 927, 928.

[13] *Bankers' Magazine* (New York), vol. xvi, "*Notes on the Money Market.*"

New York were diminished by $23,000,000.[14] There was a slight decline in circulation, and a marked increase in deposits and specie reserves.[15] Fortunately, as has been explanied, while crops were a failure in Europe in 1860-1861, they were abundant in America. The result was that the balance of indebtedness was turned in favour of the United States.[16] In the spring and summer of 1861 sterling exchange was quoted at from two to three points below par in New York.[17] Though the interior drew considerable specie from New York, and the receipts from California declined, yet owing to large exportations the banks of New York gathered specie to an unprecedented extent.[18] On August 17 the ratio of the specie held by the associated banks of New York to their deposits and circulation was 50 per cent.; for Boston it was 27 and for Philadelphia 39 per cent.[19]

When Mr. Chase appealed to them for aid the banks were able and willing to assist the government. A conference of bankers from New York, Boston and Philadelphia met the secretary in consultation in New York.[20] The bankers agreed to advance $50,000,000 to the government in return for three-year treasury notes at par, bearing interest at 7.3 per cent. They were further given the option of taking a second loan of $50,000,000 on the same terms Oct. 15, and a third $50,000,000 Dec. 15.

The banks thus agreeing to lend the government $150,000,000 in four months' time had an aggregate capital of but $120,000,000. Their combined coin reserve amounted to $63,200,000. In order to prevent the exhaustion of the bank's reserve they counted on selling the securities they received from the government for cash. Moreover, it was expected that the speice paid

[14]See the table in chapter III.

[15]*Ibid.*

[16]*Hunt's Merchants' Magazine*, vol. xlvi, pp. 277-81.

[17]*Bankers' Magazine* (New York), 1860-1861, "*Notes on the Money Market.*"

[18]*Hunt's Merchants' Magazine*, vol. xliv, pp. 80, 200, 329, 415.

[19]Mitchell, *History of the Greenbacks*, p. 30.

[20]*Report of the Secretary of the Treasury*, 1861, pp. 8, 9.

out to the government would be expended for war supplies; and that contractors and others would return it to the banks in the course of trade. Indeed, it was hoped that most of these transactions would be completed by mere exchange of credit accounts at the banks.

It should be observed that the independent Sub-Treasury system required that all debts due the United States should be paid into the treasury in coin.[21] It would then appear that the subscriptions to the loan made by the banks would have to be transferred from the vaults of the banks to the Sub-Treasury. But by the law of Aug. 5, 1861, the secretary was authorized to deposit the moneys obtained from the bank loans, in any solvent specie-paying bank he might select.[22] Naturally, the banks thought that Chase would, in accordance with this provision, place the sums borrowed from them to the credit of the government on the books of the banks, and that he would draw against these accounts as occasion might require. But, contrary to their hopes and expectations, he forced the banks to pay their loans in specie into the Sub-Treasury; giving as his reason that, no matter how able eastern bankers might be to pay coin on demand, certainly their correspondents in the West could not be depended upon to do so.

At this time Secretary Chase issued non-interest-bearing treasury notes, payable on demand in gold, and receivable for taxes and customs dues. The banks declined to receive these notes except as "special deposits." Chase now issued 7.30 treasury notes, and made an urgent appeal to the people to subscribe for them. The New York banks put their specie into a common fund; and made use of the plan adopted to check the panic of the preceding November, when making payments among themselves. It was agreed that the stock of specie should not be permitted to fall below one-fourth of the net liabilities, exclusive of the circulation and the credit advanced the treasury. In the event of any bank failing to furnish this pro-

[21] Act of July 4, 1840, secs. 19 and 20, 5 *Statutes at Large*, p. 385; Aug. 6, 1846, secs. 18, 19 and 20, 9 *Statutes at Large*, p. 59.

[22] 12 *Statutes at Large*, sec. 6, p. 313.

portion of specie, the deficit was to be taxed by the loan committee, and the tax paid to the banks with the greatest percentage of specie.[23]

The associated banks divided the subscriptions on the basis of their capitals. Each bank was to pay 10 per cent. of its share of the subscription to the Sub-Treasury at once; the balance was placed to the credit of the government upon its books. Secretary Chase was to draw only as fast as he was in need of money. It was estimated that his demands on the banks would amount to 10 per cent. of the loan per week.[24]

It was found that the specie reserves of the banks were being depleted at the rate of about $5,000,000 per week. The first instalment on the loan had been paid in New York on August 19; and not until September 3 did the banks receive any reimbursement arising from the sale of the 7.30 notes to the general public. However, part of the specie began to flow back through contractors' deposits, and the sums received from the government for war material. From August 17 to September 21 the New York banks lost $13,000,000 of specie.[25] The loan committee of New York discovered that the loss of coin reduced the reserves of some of the associated banks below the amount of 25 per cent. of net deposits; so a reapportionment was made on September 2.[26] After September 21 the tide turned in favor of the banks. The government paid out its disbursements so rapidly, and trade was so active, that a stream of specie set in toward the banks. This store of specie, together with that received from the sale of the 7.30 notes, came to

[23]H. R. *Executive Document, No.* 25, 37th Congress, 3rd session, pp. 125-142.

[24]*Vide, Schucker's Life of Chase*, pp. 430, 431.

[25]Mitchell, *op. cit.*, p. 30.

[26]As we have explained, the apportionment was at first managed by charging interest upon the deficiency of reserve. On Sept. 21 this account was closed and after that the specie apportionment was made by requiring the banks to exchange loan certificates for specie whenever their specie was less than 25 per cent. of their net deposits, exclusive of the amount to the credit of the government. See pp. 126-133 of the *"Report of the New York Loan Committee," H. R. Executive Document No.* 25, 37th Congress, 3d session, p. 128.

exceed that paid out by the banks into the Sub-Treasury. The New York banks held in the middle of October $5,500,000 more specie than on September 21. Encouraged by this, the banks agreed to take the second $50,000,000 of the 7.30 three-year treasury notes fifteen days before they had promised to receive them, although they had not yet completed their payments upon the first loan. Popular subscriptions, however, had not been a success as far as the first loan was concerned. On September 11 the banks had issued a statement to the effect that they were meeting their engagements in connection with the first loan; but that if they were to successfully take up the second loan the public must come to the rescue by buying up the first issues of 7.30 notes. But subscriptions came in very slowly, and after some $45,000,000 of the first loan had been sold to the public the treasury agencies were closed and the banks themselves undertook to dispose of the second $50,000,000.

While the banks were supplying the government with these large loans they had also to furnish accommodation to the public. This they were able easily to do. The outbreak of war had prostrated business, and the banks had lost many of their usual customers.[27] They were able, consequently, to lend largely to the government.

On October 24 the last instalment of the first $50,000,000 loan was paid into the sub-treasuries, and the first payment on the second loan was made a few days later. All proceeded as smoothly as could be expected; and on November 16, a month before the date set in the agreement of August, the banks offered to take a third $50,000,000 of government securities. As they had met with so great difficulty in disposing of three-year 7.30 notes, they refused more of them and accepted in their stead twenty-year 6 per cent. bonds at a rate equivalent to par for 7 per cent.[28] The banks were also given the option of taking on January 1, 1862, a fourth loan of $50,000,000 upon the same terms as the first and second.[29]

[27] *Vide, Executive Document, No.* 25, 37th Congress, 3d session, p. 56.
[28] See *Executive Document, No.* 25, p. 129, 37th Congress, 3d session.
[29] *Report of the Secretary of the Treasury*, December, 1861, p. 10.

Everything continued to go well for several weeks after the third loan was taken. The banks paid the instalments still due on the second loan into the sub-treasuries of New York, Boston and Philadelphia. The first payment on the third loan was made December 10; and three days previous to that time the specie reserves in each of the three cities were in good condition; New York banks holding as much coin as at any time since August. The Boston and New York banks were actually stronger in specie than at any time when the first government loan was advanced.

Two events now occurred that were disastrous. The report of the Secretary for December, 1861, was given to the public. It was found that expenses were $214,000,000 greater than had been expected; the receipts would be reduced $25,000,000 below the estimate.[30] The bankers had expected Mr. Chase to bring forward a definite plan of finance based upon adequate taxation. He proposed to raise, however, only $50,000,000 by taxation; his main hope in securing funds being based on a scheme to reorganize the banks and compel them to buy government bonds.[31] There was great disappointment at the report.[32]

The second event was the Trent affair, which almost caused a rupture of amicable relations between the United States and England. Great Britain threatened war unless restitution were made; and the receipt of this news caused a panic on the New York market on the 16th. Government securities fell 2—2½ per cent. Shares of every kind participated in the decline; and sterling exchange rose two points.[33] On the 17th a meeting of the associated banks was held to consider the situation. Vigorous resolutions were adopted; and it was declared there was nothing in the situation to call for a suspension of specie payments.[34]

[30] *Report of the Secretary of the Treasury*, December, 1861, pp. 11 and 12.

[31] *Ibid.*, pp. 17-20.

[32] *Hunt's Merchants' Magazine*, vol. xlvii, Dec., 1862, p. 507.

[33] *Bankers' Magazine* (New York), vol. xvi, pp. 491, 558, 559.

[34] *Hunt's Merchants' Magazine*, vol., xlvi, p. 101.

The banks continued to pay out gold to the government; but the people began to hoard specie, so that there was no returning flow of gold. Boston and the West drew heavily upon their balances in New York, and deposits fell $17,000,000 in three weeks. Over $50,000,000 of the resources of New York banks were locked up in government securities; they could not sell their 7.30 notes except at a heavy sacrifice, and the danger of war with Great Britain destroyed all hopes of negotiating six per cent. bonds in Europe. The week after the receipt of war-like news from England the New York reserves were depleted by $7,400,000. It was seen that under such a drain exhaustion would ensue in a short time. On Saturday, December 28, the bankers held another meeting at which it was resolved to suspend payments. It was a measure of precaution rather than one of absolute necessity; for on the day of suspension the New York banks held $4,600,000 more specie than they had at the beginning of the year. The news of the suspension was received by the public without surprise.[35] The suspension of specie payments by the banks of Philadelphia and Boston followed; and it immediately became, with the exception of the banks of Ohio, Indiana and Kentucky, general. The national treasury, being deprived of the hope of obtaining coin on loans to any considerable amount, suspended soon after. Suspension was inevitable when events occurred which checked the re-deposit in the banks of money paid out by the treasury, and when the banks could not sell their notes and bonds at adequate prices.

§2. With the suspension of specie payments it was impossible for the government to secure further aid from the banks. And there was pressing need to find funds immediately to prosecute the war. As has been pointed out, the Secretary estimated the deficit for the ensuing six months at $214,000,000; by far the greater part of which was to be raised from loans. But how to secure loans at reasonable rates or at all was the question. At this juncture of events he bethought himself of a

[35] *New York Tribune*, Dec. 31, 1861, p. 31.

UNIVERSITY OF CALIFORNIA

plan to make use of the banks for this purpose. He proposed to establish a new system of banking in which the central feature would be a note-circulation based on government bonds.[36]

It is difficult to say when the Secretary first conceived the idea of establishing such a national banking system. In his report to the special Congress assembled in July, 1861, he said that he wished it to consider "taxes on distilled liquors, on *bank notes*, on carriages, and similar descriptions of property. . . ."[37] It is impossible to state whether the intention to tax the notes of state banks indicated in any way a desire to make room for the issue by national banks of a new class of notes. It seems possible that, even at that time, he was planning to supplant the state bank issues by those of national banks. However that may be, in his report of December of that year he clearly outlined his plan wherein, as has been noted, the essential feature was to be "the preparation and delivery to institutions and associations of notes prepared for circulation under national direction . . . secured as to prompt convertibility into coin by the pledge of United States bonds, and other needful regulations."[38]

According to the usual method of procedure this plan was read in the House of Representatives and referred to the Committee of Ways and Means. The committee was overburdened with work; and to expedite matters a division of labour was made among its members. The chairman of the committee was Mr. Thaddeus Stevens, of Pennsylvania, and his special work was the pushing of appropriation bills. Mr. Justin S. Morril, of Vermont, one of the leading tariff advocates of the day, presided over the sub-committee which dealt with taxation; and Mr. Elbridge G. Spaulding, of Buffalo, a banker who had been state treasurer of New York, directed the remaining subcommittee which occupied itself with the problem of raising

[36] *Report of the Secretary of the Treasury*, Dec., 1861, pp. 11-20.

[37] *Report of the Secretary of the Treasury*, July, 1861 (special session), p. 9.

[38] *Report of the Secretary of the Treasury*, Dec., 1861, pp. 18, 19.

loans.[39] It was to this committee that Mr. Chase's plan was submitted.

Mr. Spaulding, with his two colleagues, Samuel Hooper, a retired Boston merchant, and Erasmus Corning, an Albany millionaire, at once entered with zeal upon the work of drafting a bill for a system of national banks, along the lines Secretary Chase had laid down. But on Saturday, Dec. 28, came the disheartening news that the New York banks had decided to suspend specie payments. It was clearly seen that this was a heavy blow to the government; for no further aid could be expected from the banks. The government needed funds at once; and the bank bill offered no immediate prospect of floating government bonds. Aid could come from this source only after several months at least. Accordingly, the bank bill was shelved for the time;[40] and the legal tender section, originally intended to accompany the bank bill, was immediately enlarged into a separate bill, and introduced into the House December 30.[41]

It will thus be seen that the question finally involved a choice between issuing bonds to secure bank notes and making a forced loan by issuing United States notes. There seems to be no valid reason for assuming that the government ever intended to make greenbacks a permanent part of the currency of the country; or that they were ever meant to do more than form an emergency forced loan. This was a reckless interference with the delicate mechanism of exchange; and fastened upon the people an inelastic government paper entirely unsuited to modern business conditions, and which proved, at the same time, an extravagant and wasteful measure for financing the war. This insane policy of issuing paper money might have been avoided had the country possessed an experienced financier as Secretary of the Treasury. But Chase was ill-prepared for such a position; and did not devote himself whole-heartedly to his own duties, spending too much time on the military side

[39]E. G. Spaulding, *History of the Legal-Tender Paper Money Issued during the Great Rebellion*, pp. 7, 8.

[40]Spaulding, *op. cit.*, p. 14.

[41]H. R. Bill No. 182.

OF THE UNIVERSITY OF CALIFORNIA

of the war.[42] A vigorous policy of taxation might have secured the needed funds; but the country had not known heavy taxation for a generation, and almost all the prominent men in Congress thought the war would speedily terminate.[43] The committee was simply stampeded into drawing up the legal tender bill. It was thought that the government would be out of funds in thirty days, and that decisive action needed to be taken.[44] As it turned out, however, it was forty-eight days before the legal-tender act was passed, and over thirty-four more before the first notes were issued.[45] If this time had been utilized in marketing bonds, and in framing some simple legislation imposing taxes on wines, beers, tobaccos, etc., there would scarcely have been any need to have had recourse to greenbacks.

Several bills embodying in different forms the ideas of Mr. Chase for a national banking system were introduced during January and February, 1862, but they failed of passage, as did one introduced in July. In his annual report the Secretary once more turned to the subject, and urged the passing of such a measure.[46] The time was more favorable for the introduction of a bill for this purpose; and the attempt proved successful. The following chapter will deal with the debate upon the passage of the act which has played such an important rôle in the financial life of the people.

[42]Hart, *S. P. Chase*, pp. 211-214.

[43]*Vide*, Morrill's Fessenden's, Chandler's, Simmons', etc., remarks in the *Congressional Globe*, 37th Congress, 2d session, pp. 630, 765, 774 and 794. See also Rhodes, *History of the United States*, vol. iii, p. 636.

[44]*Vide*, Spaulding's speech in the House, *Congressional Globe*, 37th Congress, 2d session, p. 524.

[45]W. C. Mitchell, *History of the Greenbacks*, p. 73.

[46]*Report of the Secretary of the Treasury*, 1862, p. 17.

CHAPTER V.

THE DEBATE ON THE NATIONAL BANK BILL OF 1863.

§1. The bill which met with success was introduced into the Senate by Senator Sherman, January 26, 1863. It was sent to the House on February 12, and became law the 25th of the same month.[1] Because of the great pressure of business, and the imperative necessity of securing funds to prosecute the war, the debate on the bill occupied the attention of Congress for a

[1] *Congressional Globe*, 37th Congress, 3d session, p. 840. The following schedule shows the course of the bills introduced prior to Senator Sherman's: 11th July, 1862, bill introduced in the House by Mr. Hooper, of Massachusetts, "to proivde a national currency secured by a pledge of United States stocks and to provide for the circulation and redemption thereof." Read a first and second time and referred to the Committee of Ways and Means. July 12, 1862, resolution to print 5,000 copies referred to the Committee on Printing. July 15, 1862, resolution to print 5,000 extra copies laid on the table. Jan. 7, 1863, Mr. Hooper introduced a new bill. The number of the former bill was 568; that of the present 656. Referred to the Committee of Ways and Means and ordered to be printed. Jan. 8, 1863, reported adversely upon by Mr. Stevens, of the Committee of Ways and Means. Report not accepted because the bill was not in hand to be read. Mr. Stevens then reported the bill to the House. It was read a first and second time and passed over until Jan. 16. Jan. 29, 1863, Mr. Moorehead, of Penn., introduced a bill in the House, for the same purpose as the Hooper Bill. It was read a first and second time, referred to the Committee of Ways and Means, and ordered to be printed. The former bill was not taken up on Jan. 16 as per motion, that day being taken up largely with the discussion of a further issue of treasury notes.

The course of the bill which became law: Jan. 26, 1863, introduced in the Senate by Senator Sherman, of Ohio. Read twice, referred to the Committee on Finance and ordered to be printed. Feb. 4, 1863, taken up in the Senate, but postponed until the 9th inst. Feb. 9, called up in the Senate. Feb. 9, 10, 11, discussed in the Senate. Feb. 12, passed in Senate by a vote of 23-21, and sent to the House. Feb. 13, bill remained upon the Speaker's table, but ordered to be printed. Feb. 19, discussed in House. Feb. 20, discussed in House and passed 78-64. No amendments. Feb. 21, resolution to print 10,000 extra copies referred to the Committee on Printing. Feb. 23, reported in both Senate and House as enrolled. Feb. 24, 10,000 extra copies ordered by Senate. Feb. 28, concurrence by House. Feb. 25, signed by President.

For the law see *U. S. Statutes at Large*, p. 665.

few days only. Nevertheless the struggle was bitter, and the measure passed by only a narrow margin.

§2. The real reason for the enacting of the national bank act has long been a matter of controversy. Secretary Chase who, as has been noted, was one of the chief supporters of the measure, laid great emphasis upon the enlarged market for government bonds which would be secured under the new system. Thus he had maintained that the proposed plan would give the advantage of a large demand for government securities and of increased facilities for obtaining the loans required by war. He hoped that the plan then submitted might impart such value and stability to government securities that it would not be difficult to obtain the additional loans required for the service of the current and succeeding years at fair and reasonable rates.[2] In his next report he returned to the same subject: "The organization proposed would require within a very few years, for deposit as security for circulation, bonds of the United States to an amount not less than $250,000,000. . . . A steady market for the bonds would thus be established, and the negotiation of them greatly facilitated. . . . The plan proposed would create a constant demand for bonds, equalling and often exceeding the supply. . . . It is not easy to appreciate the full benefits of such conditions to a government obliged to borrow."[3]

§3. A careful study of the debate itself in the Senate and the House, discloses the fact that much was expected in the way of financial aid to the government from the new banking system. Senator Sherman, especially, dwelt on this point. He

[2] *Report of the Secretary of the Treasury*, 1861, pp. 18, 19.

[3] *Report*, 1862, pp. 18, 19. Mr. R. J. Walker, author of the Subtreasury Act of 1846, then U. S. commissioner in Europe, is reported as saying (*Continental Monthly*, Feb., 1863): "If under this system during this stupendous rebellion, involving the existence of the government, with armies and expenditures unexampled in history, the Secretary (as with the aid of Congress and the banks I believe he can) should . . . negotiate vast loans running twenty years, at par, the government paying only 4 per cent. per annum, he will have accomplished a financial miracle and demand a fame nearest to the first and greatest of his ancestors, the peerless Hamilton."

said: "The banks must furnish ten per cent. more of the bonds of the United States than they receive in paper money. This at once . . . will furnish a market for over three hundred and thirty million dollars of bonds; and we know very well by the laws of demand and supply that where a demand is made for a given article the demand extends far beyond the particular want. . . . You make a fixed and permanent demand for United States bonds used for banking purposes, and you give a credit of $1,000,000,000 of bonds. That is the law of demand and supply. The very demand for these bonds, owing to the necessity for capitalists to keep them to base their banking upon, will make them a desirable security. When a banker wishes these bonds, other persons will wish them. Every demand you make for them increases largely the value of the security."[4] The Senator had no doubt that in a very short time after the passing of the act many banks would begin operations. A demand for bonds would at once arise. Many of the bonds outstanding would be absorbed for banking purposes, and others demanded. That bankers were demanding bonds would induce others to invest in them also; for if the financial leaders of the community had confidence in the ability of the government to meet its obligations, small investors would be encouraged to buy securities. Senator Sherman saw no other way to carry on the struggle except by the sale of the bonds. "Sir," he exclaimed, "you cannot carry on this war except by the sale of your bonds. If you have not got the money you must borrow it; and all other schemes are idle."[5] Continuing, he said: "Suppose we can induce the banks to withdraw $100,000,000 of their circulation and invest that much money in our bonds. . . That is the object of this bill. The object is, by appealing to the patriotism and the interests of the people and the banks, to induce the banks to withdraw their local circulation and convert it into a national circulation. . . . At once a demand is created for the purchase of $100,000,000 of United States bonds. We are

[4] *Congressional Globe*, 37th Congress, 3d session, p. 843.
[5] *Ibid.*

anxious to sell these bonds. They are now below the par of gold. The creation of a demand for $100,000,000 will by the well-known and recognized laws of trade, create a demand for $500,000,000. . . . The government of the United States is willing to borrow money at six per cent., and pay the interest in gold coin. Any person who desires to loan money to the United States may receive six per cent. interest on it, and we are very glad to sell our bonds at that rate in time of war; but to those who avail themselves of the privileges of this law we pay only four per cent., so that we receive one-third of the interest on the amount of our bonds used for banking." [6]

Undoubtedly the demand of the banks for bonds would tend to raise their price, and induce other buyers to enter the market; but Senator Sherman's calculations as to the probable demand for bonds must be considered as a mere guess. What the actual demand for bonds would be, and how many the government could float, would depend on many circumstances other than the demand made by bankers.

Mr. Collamer, of Vermont, bitterly opposed the bill. He said it was not a measure in any respect connected with the war. Almost everything that was asked for with pertinacity was put upon that ground. He maintained that the war would come to an end within the course of a year—not exceeding two years at most. Therefore, he was unable to vote for any measure that was framed on the supposition that the war would last longer than that time. But the organization of the proposed banks must necessarily be slow. Even according to Secretary Chase, nothing of great value could be expected from the banks for a year to come, and probably not much for two years. He believed that the Secretary was correct. Then, if it was a measure from which they could expect no help for that year, or even the succeeding year, it certainly could not be called a war measure. At any rate, if it had any bearing upon the war, it

[6] *Ibid.*, p. 875. The note circulation was to be taxed two per cent.; hence while the government paid 6 per cent. on the bonds it received some return on the circulation.

must be for a war that was to continue some four, five, six or seven years hence, to which view he would not accede.[7]

Mr. Baker, in the House, also ridiculed the idea that immediate aid would be secured, through bond sales, to prosecute the war. He said that if one would scan the provisions of the act, and observe to what expense, by taxation and otherwise, the banks would be subjected, how little circulation they would be permitted to use, and how much of their capital would necessarily be kept idle by the twenty-five per cent. lawful money reserve, one would find the terms in no wise conducive to attracting bankers to organize under the new act.[8] Mr. Spaulding spoke much to the same effect, although he was in favor of the measure on other grounds.[9]

Undoubtedly, Senator Collamer was correct in his contention, as was afterwards proved. The national bank act failed to provide immediate means for carrying on the war. Instead of bringing into the Treasury at once $250,000,000 or $300,000,000, it had brought in by the close of the year 1863 only $16,378,700; and by the last of June, 1865, only $235,959,100.[10] Moreover, Senator Shemran's argument that the bill would be a "support to the national credit" was even more fallacious. It is difficult to see how a loan act (and the act was a loan act in so far as the sale of bonds was concerned) can give support to public credit. Public credit exists, and therefore borrowing can take place. When finances are properly administered public credit does not call for support. Indirectly, and in the long run, however, the bill did strengthen public credit; for it put the financial affairs of the people on a firmer basis and increased their ability to support the government.

§4. The passage of the bill was urged from another point of view also. It was hoped that it would serve materially to counteract sectional tendencies, that were all too strong at that time. Secretary Chase wrote in his annual report: "The proposed

[7] *Ibid.*, p. 869.
[8] *Ibid.*, p. 1141.
[9] *Ibid.*, pp. 1114, 1145, 1116, 1117.
[10] *Report of the Comptroller of the Currency*, 1892, p. 18.

plan is recommended finally by the firm anchorage it will supply to the union of the states. Every banking association whose bonds are deposited in the Treasury of the Union; every individual who holds a dollar of the circulation secured by such deposit; every merchant, every manufacturer, every mechanic, interested in transactions dependent for success on the credit of that circulation, will feel as an injury every attempt to rend the national unity, with the permanence and stability of which all their interests are so vitally connected. Had the system been possible, and had it existed two years ago, can it be doubted that the national interests and sentiments enlisted by it for the Union would have so strengthened the motives for adhesion derived from other sources, that the wild treason of secession would have been impossible?"[11] Senator Sherman followed very closely the same line of reasoning, during the debate. He pointed out that the act would make a community of interest between the stockholders of banks, the people, and the government.[12] At that moment there was a great movement toward secession. By passing the bill the interests of the disaffected would be harmonized with those of the loyalists so that every noteholder would be interested in the government and try to uphold its credit and security.[13] "Moreover," he continued, "if this system had been spread all over this country, and these banks had been established as agencies North and South, East and West, upon the basis of national credit, I believe they would have done very much indeed to maintain the Federal government and to prevent the great crime of secession." He disclaimed any hostility to state banks, notwithstanding the imputations of the Senator from Vermont (Mr. Collamer). He had, on the contrary, always been friendly to them. But he thought that everything now ought to be subordinate to what was necessary for the good of the country. All private interests, all local interests, all banking interests, the interests of individuals, everything, should be subordinate now to the inter-

[11] *Report of the Secretary of the Treasury*, 1860, p. 19.
[12] *Congressional Globe*, 37th Congress, 3d session, p. 843.
[13] *Ibid.*

ests of the government; but he would seek if possible, without doing them any injury, to make them harmonious with the system adopted by the general government. Thus sectional forces would be overcome and unity prevail.[14]

§5. The national bank bill was destined, incidentally, to remedy one of the greatest banking evils of the time—the lack of uniformity in note-issues. In urging the passage of the bill, Secretary Chase made much of this feature. He said: "In this plan the people, in their ordinary business, will find the advantage of uniformity in currency, of uniformity in security, of effectual safeguard, if effectual safeguard is possible, against depreciation; and of protection from losses in discounts and exchanges."[15] He hoped that "through the voluntary action of the existing institutions, aided by wise legislation, the great transition from a currency heterogeneous, unequal and unsafe, to one equal, uniform and safe, might be speedily and almost imperceptibly accomplished."[16] The same considerations occupied his serious attention in his report of the following year.[17]

Senator Sherman laid emphasis upon the same point. He was emphatic in his denunciation of the condition of the existing bank-note circulation. It was a matter of wonder to foreign nations that such a state of affairs could have existed for so long a time in the midst of a great and powerful people. In this connection Mr. Sherman quoted from "a paper conducted with eminent ability—the London *Times*." Commenting upon the proposed measure it had said that "by the want of a paper currency that would be taken in every state of the Union at its nominal value, the Americans have suffered severely. The different states are, as to their bank notes, so many foreign nations, each refusing the paper of the others except at constantly varying rates of interest. Frequently there is a greater loss on paper sent from an eastern to a western state

[14] *Ibid*, p. 844.

[15] *Report of the Secretary of the Treasury*, 1861, p. 18.

[16] *Ibid.*, p. 22.

[17] *Report*, 1862, p. 17.

than on English bank notes converted into Austrian money in Vienna. Only adepts and money changers can tell whether a note is current or not, the paper of broken or suspended banks remaining in circulation long after their value has departed. The Federal government avoids loss by refusing all paper of every kind. Its import duties are taken only in gold, and of inland revenue it has had none. . . . If the social storm sweeps away the 'wild-cat' and 'bogus' banks of the Union, it will have left some small compensation for the wreck of better things. The best part of Mr. Chase's plan is the suggestion that will probably excite the least attention." [18] Senator Sherman confidently predicted that the adoption of the bill would strike the death blow to these conditions. Under the proposed plan the currency would be uniform, and printed by the United States. It would be of uniform size, shape and form; so that a bank bill issued in the State of Maine would be current in California, and indeed be of uniform value throughout the United States. "I have no doubt," he continued, "that these notes will, in the end, be taken as the Bank of England note now is all over the world, as a medium, and a standard medium of exchange; not, it is true, during the war, but after peace shall again bless us. These notes will then be the very best currency that can be issued. They will be safe; they will be uniform; they will be convertible. These are all the requisites that are necessary for any system of currency or exchange." [19]

In the House similar arguments were made in behalf of the measure. Mr. Spaulding pointed out that no policy had as yet been adopted whereby the government had assumed supervision of the currency used by the people. The people depended almost altogether upon the notes of state banks for a circulating medium. A national currency, adequate to the operation of the government in peace and war, must be established; and it seemed that the present was a propitious time to enact a

[18] Quoted by Senator Sherman from the London *Times*, p. 842 of the *Congressional Globe*, 37th Congress, 3d session.

[19] *Ibid.*, p. 842.

measure for securing the desired results.[20] Among others, Mr. Fenton and Mr. Alley spoke along the same line.[21]

Senator Collamer was the only one in the Senate who ventured to question the value of Sherman's argument. He ridiculed the idea of attempting to make bank notes uniform in value throughout the whole country. "It is said that after all the great object to be effected is a uniform currency. Well, now, Mr. President, the idea of making a uniform currency by force of law is utterly impracticable. You might just as well make a law to regulate the circulation of blood in the human system. You have a most explicit law that a certain weight of gold stamped in a certain way shall circulate in the United States as ten dollars. You have another law that a piece of paper stamped so and so, and saying thus and so, shall be ten dollars lawful money, a legal tender. Have you not by law made them exactly alike as far as human laws can? Yes. Are they alike? Are they of the same value? The laws of commerce and the laws of pecuniary circulation are utterly beyond human legislation." [22]

Here the Senator had curiously mixed fact and fancy. It is quite true that no government, by its mere *fiat*, can fix the value of money or anything else. Values are determined in the market, and not in the legislative chamber. Governments may by legislation influence values, but it is beyond their power to determine them. Thus far Senator Collamer was right. Because the government issued greenbacks and legislated as to their value, it did not follow that each piece of paper made a legal tender for a dollar was worth a dollar in gold. The value of the greenbacks fluctuated according to the certainty of its being redeemed in gold. But Senator Sherman, knowing that the banks could not resume specie payments during the war, and being quite aware that, of necessity, the national bank circulation could be redeemed only in greenbacks which were the lawful money of the country, harboured no such delusive hope as

[20] *Congressional Globe*, 37th Congress, 3d session, p. 1115.
[21] *Ibid.*, pp. 1118, 1146.
[22] *Congressional Globe*, 37th Congress, 3d session, p. 872.

that the national bank notes would be on a par with gold. What he did contend, and with reason, was that the national bank circulation would be uniform in value throughout the length and breadth of the land, however much it might fall below par in gold, as the value of greenbacks fluctuated; and that the new system would sweep away once and for all the multiform bank notes and "wild-cat" banks that had so long distressed the country.

§6. Intensely interesting for the student of finance is the fierce battle over the further issue of greenbacks that arose during the course of the debate. On the one hand there were those who sought an easy way out of the financial difficulties by the simple expedient of issuing more paper currency; while on the other hand were a number of men who plainly saw the danger of confusing the monetary system of the nation with fiscal operations.

The further issue of United States notes was still, however, looked upon by all thoughtful men as a national calamity. The premium on gold had been steadily rising. On January 9, 1863, a bill had been introduced in the Senate to provide for another issue of $300,000,000 of greenbacks. It acted like magic on the gold premium. On the day it was introduced the premium was 36 per cent. The next day it rose to 38 per cent.; in three days it went to 41 per cent., and within six days it rose to 48.5 per cent.[23] The danger of any further issue of these notes was patent.[24] It was as an alternative to further borrowing by greenback issues that Secretary Chase had first broached his banking scheme.[25]

Senator Sherman was utterly opposed to any new issue of United States notes; and drew attention to the striking and demoralizing result produced by the mere proposal to issue additional sums. In January, 1863, in one week, the greenbacks changed in value over ten per cent., and in three weeks nearly

[23] *Congressional Globe*, 37th Congress, 3d session, p. 841.

[24] *Vide, New York Times*, 1863, 31st Jan. and 14th Feb.

[25] *Report of the Secretary of the Treasury*, 1861, p. 18.

thirty per cent.[26] The proposal of the Senate to reduce the issue at once raised their value five per cent.[27] Sherman further pointed out that financing a war by forced loans in the shape of paper money, was a costly procedure. It increased wages of government employees; enhanced the prices of clothing and provisions for the army, and all war supplies. These enormous expenses paid by forced loans would eventually have to be met in gold. The greenback issues also deranged the monetary system. They were inelastic; they were not convertible; and in no way met the financial necessities of the people. He expected—a hope that was doomed to failure—that after the war these issues would be immediately retired. The contraction of prices would probably be as rapid as the inflation; and the ensuing dislocation of business would be great.[28] He complained, too, that the banks were adding to the inflation of prices. They had suspended specie payments and were using United States notes as reserves. With a hundred dollars in gold they could go into the market and secure one hundred and twenty or more dollars in greenbacks. Thus the reserves were increased while the percentage of reserves to demand liabilities remained as before. In this way the banks could, and did, extend their credit operations.[29]

Senator Collamer replied that, although he had opposed the making of greenbacks a legal tender, a certain amount of them was necessary to take the place of the currency lost or withdrawn at the outbreak of war.[30] "I can easily see," he said, "that this, together with the very large demand for the use of money in paying large bodies of troops, taking large contracts for army supplies, requires the use of a much extended

[26] *Congressional Globe*, 37th Congress, 3d session, p. 841.

[27] *Ibid.*

[28] *Ibid.*

[29] The criticism was hardly fair; for the banks were merely adapting themselves to a situation thrust upon them by the government.

[30] *Globe*, 37th Congress, 3d session, p. 841. This consisted mainly of notes of banks which held Southern bonds; and a certain amount of Canadian money which had circulated along the frontier and as far west as the Mississippi river.

amount of circulation. Instead of having with what we have put out, and what the banks have put out, any redundancy, there is a demand in the market, and no depreciation has occurred as evidenced by any increase of prices." He was of the opinion that gold had appreciated, rather than that the greenbacks had depreciated. A truly strange doctrine!

Mr. Collamer further contended that the greenbacks cost the government practically nothing—merely the expense of striking them off. What was this insidious scheme which was to deprive the government and the people of the immense advantages derived from the use of greenbacks as money, and as loans without interest? It was proposed to induce the people to take $300,000,000 bonds; to set up new banks; to issue a national currency, and to guarantee its payment. Would the paper be any safer than the greenbacks? What was it founded upon?—United States bonds. Whom must the bill-holders look to for final redemption?—The United States Treasury. Ultimately the safety of the system depended upon the stability of the government.[31] The greenback circulation rested on the same basis—the credit of the people of the United States.[32] "Then," he said, "putting it into plain English, you propose to hire these people to go into these associations, take these bonds and deposit them. They are to pay a two per cent. tax on their circulation, and you pay them six on their bonds. I will call it four per cent.; though it is more, as the gentleman knows, because the two per cent. they pay is in currency and the six per cent. we pay is in gold. The amount of it is this: we say to them, 'if you will do this to the amount of $300,000,000, and put out notes to the extent of ninety per cent. of the bonds, we will pay you $12,000,000 in gold every year for doing it.' . . Instead of circulating that amount of our own currency upon our own responsibility, and paying nothing, we are to hire them to circulate that amount of our currency, and pay them $12,000,000 a year in gold for doing it; and we are to be respon-

[31] *Ibid.*, p. 872.

[32] *Ibid.*, p. 872.

sible after all. That is all there is of it. Yankee as I am, I am unable to perceive how it is possible that that can be a good trade for us, or how any shrewd man would ever think of entering into an agreement of that kind. . . . It is conceding to the world that we have become perfectly desperate."

In the House there was a good deal of discussion over the same question. Mr. Noble complained bitterly of the greenback issues.[33] He pointed out that when the soldiers entered the field their pay was made thirteen dollars a month. The supplies for their families consisting of the commonest household needs, such as muslins, prints, checks, cotton cloths, boots, shoes, coffee, sugar and molasses cost then about one-half the price to which they had since risen. Yet it was often boastingly said that "the greenbacks came to help the soldier." He might well say: "Save me from such blessings!" A few more such would render him bankrupt, and bring his wife and children, who were dependent upon his pay for support, to the brink of ruin. The system ought to be abandoned. Mr. Alley was of the opinion that if the government continued to issue greenbacks it would be compelled to repudiate its liabilities, or compromise at a serious reduction.[34] If the war should continue long on the present gigantic scale, and the currency to be inflated, the effect would be an enhancement of prices ten times over. It would be utterly impossible for the laboring population to exist under such conditions. The people would be disposed to subvert the government itself rather than submit to such oppression.

These speakers were, of course, quite right; and Senator Collamer was in error. The greenback issues did derange prices, and inflict hardship upon all—especially upon the laboring classes. Collamer had a very narrow idea of "cost." The experience of the French with their *assignats*, and of revolutionary America with its "continental" currency, should have warned the government of the dangers involved in tampering with the monetary system for fiscal purposes. The greenbacks

[33] *Ibid.*, 1144. [34] *Ibid.*, 1146.

appeared to furnish loans without interest; but in the end the people paid dearly for the venture.

§7. What effect the proposed change would have on the state institutions already in existence was discussed more than any other aspect of the question. The Secretary of the Treasury undoubtedly intended that the state banks should be transformed into national institutions. Such a change, he thought, would be for the benefit of the whole country, and would be entirely constitutional.[35] He said of the system that it "contemplated the gradual withdrawal of state bank note circulation and proposed a United States note circulation furnished to banking institutions." On the question of constitutionality the Secretary, notwithstanding a decision of the Supreme Court to the contrary,[36] took the ground in 1861 that the issuing of notes by the state banks fell "within the spirit if not within the letter of the constitutional prohibition of the emission of bills of credit by the states, and of the making by them of anything except gold and silver coin a legal tender in the payment of debts." It is now generally recognized, however, that issues of banks chartered by the states are constitutional. Nevertheless, the mere fact that a particular institution may exist under the constitution does not guarantee its being harmless. The public welfare required the suppression of the issues of state banks; and Congress, in spirit at least, disregarded the Supreme Court's decision when it suppressed these issues through the power of taxation.

When the bill was introduced in the Senate it contained a clause taxing state banks one per cent. semi-annually upon the whole amount of their issues.[37] This was called by its oppo-

[35] *Report of the Secretary of the Treasury*, 1862, p. 19.

[36] *Briscoe v. Bank of the Commonwealth of Kentucky* (ii Pet., 257).

[37] ". . . . and every bank, banking association, or corporation not organized under the provisions of this act, issuing notes calculated or intended to circulate as money, shall, on the first day of July next, and regularly on the first days of January and July thereafter, make and deliver to the comptroller of the currency an accurate return of the gross amount of notes issued by it, whether in circulation, or in its vaults, or on deposit elsewhere, specifying the amounts of the several

nents the "coercive" feature of the bill. It was thought by many that the purpose of the clause was to force the state banks to deposit United States stocks immediately and obtain United States notes, and so at once introduce the uniform currency into circulation.[38] It appears from the discussion of the tax features of the Revenue Bill of March 3, 1863, that many entertained the idea of taxing the state bank issues out of existence.[39] Nothing can be clearer from the debates than that the national system was to supersede the system of state banks. Nor was the idea of compulsion altogether given up when the coercive feature of the original bill was struck out.[40]

denominations; and shall pay to the comptroller of the currency, semi-annually at the time of making such return, in lawful money of the United States, one per centum upon the gross amount of notes issued, according to such return; the bank, banking association, or corporation so failing to make return shall pay to the United States a penalty of two per centum upon its entire capital stock, to be recovered, for the use of the United States, in any court of competent jurisdiction." Section 21 of the bill as introduced by Mr. Sherman. *New York Times*, 30th January, 1863.

[38]The *New York Tribune* suggested that the opposition in the House to the idea of a national bank bill might perhaps be overcome "by abandoning the coercive feature of the proposed measure, and permitting the state banks to retire their currency at will and take United States stocks and Treasury notes." January 30, 1863.

[39]The *New York Tribune* stated that Mr. Chase had declared his willingness to surrender the coercive feature of the bill; that except two members the whole Committee of Ways and Means were for the bill, and that they were at liberty to support it and probably would do so if it were modified by striking out the compulsory feature of section 21, and permitting the state banks to deposit government stocks whenever they pleased with the United States Treasurer, and receive the uniform currency. February 2, 1863.

Representative Spaulding, of New York, said: "The coercive feature having been stricken out, I intend to give it my vote." *Congressional Globe*, 37th Congress, 3d session, p. 1114.

[40]Mr. Amasa Walker, representative from Massachusetts, favoured a semi-annual tax of three per cent. on the bank note circulation of the country, which would drive that circulation entirely out of existence. Greenbacks would take the place of state notes, and upon the resumption of specie payments we should have but one kind of currency. He preferred greenbacks to the national banking system, and the national banking system in preference to the system then in vogue.—"Remarks prepared for, but not delivered in the House, upon the National Bank Bill." *Bankers' Magazine*, May, 1863, pp. 833-843. See also his speech on the National Finances in the House, January 15, 1863.

The revenue bill, which was then under consideration also, has an important bearing in this connection.[41] Some of the provisions of the act bore more heavily upon the state institutions than upon the national banks. All banks having a capital stock of $100,000 and under had to pay a one per cent. tax semi-annually upon all notes issued above ninety per cent. of the capital stock. No national bank could issue notes beyond this amount; and few banks of any kind would pay the heavier taxes of this provision, because few had a capital stock of more than $100,000. Again, the provision that all banks must pay a five per cent. semi-annual tax on issues of fractional parts of one dollar, bore only upon state banks. This provision can not be regarded as a revenue measure. It was a use of the police power of taxation to suppress such notes.

Senator Sherman frankly acknowledged that it was the intention of the government to displace state banks by the national banking system. He said that the new system would "furnish a medium by which state bank paper might be gradually absorbed—not by any harsh measures. . . . It will no doubt operate gradually to absorb the local banks, to retire their issues by substituting in their place an issue that will be safe, uniform, and convertible in all parts of the coun-

[41]The Revenue Act of March 3, 1863, contained five provisions for taxing banks: (1) All banks, corporations, or individuals issuing notes for circulation as currency, had to pay a tax of one per cent. semi-annually after April 1, 1863, upon the average amount of notes issued beyond a certain per cent. of their capital stock. This limit was as follows: for banks having a capital stock of $100,000 and under, 90 per cent.; between $100,000 and $200,000, 80 per cent.; between $200,000 and $300,000, 70 per cent.; between $300,000,000 and $500,000, 60 per cent.; between $400,000 and $1,000,000, 50 per cent.; between $1,000,000 and $1,500,000, 40 per cent.; between $1,500,000 and $2,000,000, 30 per cent.; for those having over $2,000,000, 20 per cent. (2) The notes not taxed by the foregoing provision were to be taxed one-half of one per cent. semi-annually. (3) All banks issuing currency of fractional parts of one dollar were to pay five per cent. each half year on the amount of such notes. (4) All banks had to pay a tax of one-eighth of one per cent. on the average amount of deposits beyond the average amount of their circulation lawfully issued and outstanding as currency. (5) The tax on the national banks was the same as that laid on the circulation and deposits of all other banks.—12 *United States Statutes at Large*, 709.

try. I believe this system," he continued, "if it has a fair trial, a fair experiment, will gradually absorb all the state banks, without deranging the currency of the country or destroying the value of the property of stockholders in banks."[42] He disclaimed any hostility to the state banks, and reiterated that he had always been friendly to them.[43] However, state banks would now have to be sacrificed for the general good of the nation. It could only be by the adoption of the national banking system that the local banks could be made to harmonize with the interests of the people of the United States.[44]

As on the other points at issue Senator Collamer bitterly attacked this feature of the scheme. He understood, he said, that it was an integral part of the system, without which it was good for nothing, that the circulation of the existing banks of the country was to be withdrawn. Indeed, unless the latter part of the plan was secured, its "great professed object of making a uniform national currency throughout the United States could not be effected. He asked his hearers to pause and consider what the result would be on the condition of the people of New England by the winding up of their banks, and undergoing the process of transition which the bill demanded. He drew their attention to the fact that the passing of the bill laid the foundation of the passing of the next bill that was to come before them for raising money, in which was inserted a clause taxing the circulation of banks two per cent. He could not draw a sufficiently clear picture of the amount of distress and suffering that would follow the winding up of the banks of New England, with which the interests of the people were so closely interwoven.[45] It would be worth while to stop for a moment and consider whether Congress really had the power to do this. He was emphatically of the opinion that it had not.[46] It was conceded that a state had the power to charter

[42] *Congressional Globe*, 37th Congress, 3d session, p. 843.
[43] *Ibid.*, p. 844.
[44] *Ibid.* See also pp. 875, 876, 881.
[45] *Ibid.*, p. 870.
[46] *Ibid.*

banks of issue. If a state had that right, it had it independent of the consent of Congress. If so, it could not lie in the power of the United States to tax such banks out of existence.[47] He contended that Congress had no more power to tax a state bank out of existence than a state had to tax a United States institution out of existence. "Why, sir," he continued, "you might just as well tell me that the United States, under the power of taxation, could go on and extinguish all the schools in New England, its colleges, and its academies, and their books and their buildings, and the salaries of the professors, and in that way destroy them under the very general principle of the power of universal taxation. I shall not dwell longer upon that point."[48] He complained bitterly that the states would lose greatly in taxes, since they could not lay a tax on government bonds. The taxes hitherto secured from bank-note circulation had hitherto gone to support schools. The people would never give their assent to the change.[49]

Senator Wilson, of Massachusetts, replied that the bill was not inimical to the existing banks. It did not operate by force upon them; neither did it compel them to organize under the new law. They were left free to do so if they chose, and whenever they chose. But that the city banks would adopt it, that the system would be commended, that the soundness of the currency, and its universal value, would find favor with the people, he had no doubt. It would work untold blessings to the nation, and undoubtedly within a few years save hundreds of millions of dollars to the people of the United States.[50].

In the House this feature of the bill was strenuously fought against. It was said that state banks were being discriminated against and harshly dealt with even although they had loyally come to the support of the governmnet. Mr. Alley, however,

[47]Senator Collamer evidently considered note-issue the principal function of a bank. In commercial centres at least note-issues play a minor part. The state banks of New York, for example, do an immense business to-day, although they issue no notes.

[48]*Ibid.*, *Congressional Globe*, 37th Congress, 3d session, p. 870.

[49]*Ibid.* [50]*Ibid.*

maintained that the government was really doing the state banks a favor in allowing them to come in under the act. The banks would thereby enter into coöperation with the government, and there would be a mutual effort made to sustain the credit of the country.[51] Mr. Baker, on the contrary, could see no advantage to any one concerned, in making a change. It was well known that in another measure then pending an attempt was being made to drive state banks out of existence. Was it wise to force into liquidation state banks that possessed $75,000,000 in coin as a preparation for the speedy resumption of specie payments when the war should have been finished? Who could depict the deplorable distress and ruin that would afflict the people if the present banking institutions should be driven out of existence by overpowering taxation? He commended, instead of the present plan, the adoption by each state of the New York free banking principle.[52]

The opposition was undoubtedly correct in their contention that the general trend of the legislation was unfavorable to state institutions. One of the amendments adopted had directly in view the immediate changing of state into national banks.[53]

Strong objection was also made to the alleged political influence which the bill would give to the Secretary of the Treasury. It was said that in comparison with the Second Bank of the United States the new system was formidable. Senator Collamer contended that that institution had been overthrown because it had been a dangerous political weapon in the hands of

[51] *Ibid.*, p. 1146.

[52] *Ibid.*, p. 1142.

[53] The amendment was made for the benefit of those state banks holding United States securities to the extent of fifty per cent. of their capital stock. Banks could deposit these securities with the Treasurer of the United States and obtain currency to the amount of eighty per cent. of the transfer. If any bank accepting this offer should fail to redeem any of its notes, the comptroller, on proof of the same, could declare the bonds deposited by the bank as transferred and forfeited to the Treasurer of the United States. The United States then became responsible for the redemption of the notes of the defaulted banks. The bonds forfeited were to be cancelled to the extent of the notes redeemed, or, if sold, the amount of redemption should be deducted and the residue returned to the bank.—*Congressional Globe*, 37th Congress, 3d session, p. 850.

whatever party happened to be in power.[54] Under the proposed plan the Secretary would nominate the Comptroller of the Currency. Three thousand banks might be established, scattered throughout all the country. They would be inspected by government agents from time to time, and reported upon. The Secretary was authorized to make such of them as he saw proper depositories of the public funds. According to the scheme $300,000,000 circulation was to be apportioned among the banks, partly according to state population and partly according to capital. If the old United States Banks, said Senator Collamer, caused apprehensions to the people because of their power in politics, what could be said of the present scheme? "If the Secretary can be furnished with these powers and choose to use them, he must be a very bungling politician if he cannot make himself president any day."[55]

Senator Sherman thought that the distribution of patronage and the power to select depositories and make inspection of banks, would tend to decrease the influence of the Secretary, because thereby he would make more enemies than friends. As to the distribution of the $300,000,000 of circultaion, no discretionary powers were granted. Under the bill as it originally stood there was no scheme of distribution for the circulation; but in order that each section of the country might receive its just share, the committee on finance had made this provision.[56]

§8. Senator Powell insisted that even during the war the notes should be kept on a par with gold. He therefore moved the amendment that "each and every banking association organized under this act shall be required to keep in its vaults in gold and silver coin, at all times, an amount equal to at least one-fourth of the amount of the notes it is authorized to issue."[57] He taunted Senator Sherman with having said that

[54] *Ibid.*, p. 871.

[55] *Ibid.*, p. 871. For Mr. Baker's bitter invective see *Ibid.*, p. 1142.

[56] *Ibid.*, p. 875. While the power of appointment has not been abused, the selection of depositories for public funds and the method of distributing the circulation have involved grave problems.

[57] *Ibid.*, p. 846.

"the securities of broken railways were selling higher in the stock market at New York than the six per cent. bonds of the United States." [58] These were the securities that were to protect holders of national bank notes! It was possible, as the bill stood, to redeem the notes in greenbacks. But what were greenbacks but "trash"? Notwithstanding that the country was engaged in war, he would call things by their proper names. It was well known that these notes were circulating at an enormous discount—more than thirty per cent. below gold. Bank notes which were to be redeemed in such currency would surely circulate at the same discount. Senator Howard, of Michigan, was of like opinion; and argued that the only sound principle upon which notes could be issued was that they should be "convertible at the will of the holder into specie." [59]

In the House Mr. Baker spoke to the same effect. He pointed out that the "lawful money," in which national bank notes were to be redeemed, included greenbacks which were then at a heavy discount. Moreover, it had not yet been decided whether the greenback issues were constitutional; and it was unfair to subject the people to the risk of heavy losses before this matter had been settled by the courts.[60]

The amendment was defeated.[61] With the suspension of specie payments Gresham's law began to operate. The depreciated greenbacks drove gold out of circulation. Had the bank loans been more wisely managed, and a vigorous policy of taxation adopted, the banks might still have been upon a specie basis. Then it would have been imperative on the new national banks to redeem their notes in gold. But under the circumstances this was impossible.

Yet another effort was made to compel the banks, on beginning business, to supply themselves with a certain amount of gold. Senator Howard, of Michigan, moved an amendment to the effect that the clause in the seventh section dealing with capital stock should read: "That at least thirty per cent. of the

[58] *Ibid.*
[59] *Ibid.*
[60] *Ibid.*, p. 1141.
[61] *Ibid.*, p. 846.

capital stock of such association shall be paid in at the time of the commencement of its banking business in gold or silver coin." He confessed that he belonged to that class of persons who believed that a paper currency ought to be founded on coin; and he was not inclined to enter upon any scheme of banking in which there was practically an exclusion of the precious metals as a basis of the bank circulation.[62] Senator Powell said he would like to see the words "gold and silver" somewhere in the bank bill. The government itself would not take the money it was paying to its soldiers. He thought the poor soldiers who exposed themselves on the battle-field should be paid in as good money as the United States government itself was willing to receive. The vote was closer than on the other amendments, and the motion was barely defeated.[63]

The irrepressible Senator from Kentucky attacked the bill from another quarter. He considered it "disreputable" in a government to make a currency for the people and then itself refuse to accept it for customs dues. That was sufficient to stamp the notes from the first with "discredit." "In a word," he said, "the government is willing to give the people trash, but it demands that its customs dues be paid in coin." Sterling bills were selling at from seventy to seventy-five per cent. premium. This, together with the high tariff, made the price of imported goods exceedingly high. If the customs dues could be paid in bank notes the situation would be relieved. Senator Grimes, of Iowa, spoke much along the same line.[64]

Senator Sherman answered that the person who went abroad to buy goods took gold out of the country; and it was, therefore, just that he should pay the duties on such goods in gold. The only question at issue seemed to be whether the United States should go into the market to buy gold, or whether the importer should do so; and in his opinion there could be but one answer to that question—the answer given in the bill. The reply proved effective, and the amendment was lost.[65]

[62] *Ibid.*, 849.

[63] *Ibid.*, yeas 19, nays 21.

[64] *Ibid.*

[65] *Ibid.*, yeas 9, nays 27.

The Senator from Vermont was indignant that the friends of the measure had cited the fact that the leading men of the cabinet and of the country were in its favor. Senator Sherman ought to have been called to order for making such a statement. The people in forming the constitution had deliberately rejected the British method; and now the influence of cabinet members was to be felt in Congress. He would vote and speak only according to the dictates of his own conscience.[66]

Senator Sherman answered that he had a perfect right to cite the Secretary of the Treasury, the members of the cabinet, and the leading business men as being in favor of the bill. Senator Collamer had not hesitated to express the opinions of local bankers. If he could refer to their interests, and appeal to the Senate to protect them from the doom that the sons of Jacob believed was about to fall upon Benjamin, and excite their sympathy almost to tears, surely he might cite the opinion of grave and honorable men who were charged with the responsibility of administering the executive department of the government. It was not done to exert undue influence; but simply to show that the bill had the approbation of men who had fully considered the subject, and who were now giving it their support.[67]

Senator Henderson moved to make the capital stock of a bank $300,000 instead of $50,000.[68] He did not believe that all the advantages expected by the Senator from Ohio would be derived from the bill. The experience of banking upon bonds, in the West, had been a sad one. He objected to the clause under consideration, because every man who could get into his hands $50,000 of the bonds of the United States could establish a bank and make its notes redeemable at points difficult of access throughout the country. It was his opinion that if banking was permitted on a capital of $50,000, banks would be established at every conceivable point in the United States. He much preferred the establishment of one bank with branches, or even of a Bank of the United States. The trouble

[66] *Ibid.*, p. 874. [67] *Ibid.* [68] *Ibid.*, p. 850.

at that very time with the state banks was that oftentimes the people did not know where they were located, or the character of their charters. Of course, many of these difficulties would be removed under the new system; but, nevertheless, if the paper could be redeemed at out-of-the-way places, thousands of difficulties would be presented. In his opinion banks ought not to be established except in great commercial centres.[69]

Senator Sherman trusted that the amendment would not carry. Many of the state banks had capitals of $10,000 or $25,000; and in view of this the framers of the bill thought $50,000 was a large enough capitalization. Many communities, with small capital, especially in the newer states, would wish to avail themselves of a bank of that sort. Three hundred thousand dollars would be entirely too great a capitalization. Senator Pomeroy, of Kansas, also opposed the amendment. If the banks were desirable, and he was ceratin they were, he thought they were particularly so in the West, where they had always suffered from a depreciated currency. If the amendment prevailed they would be unable to organize banks in the new states, where capital was scarce. The bill was so strictly drawn that he feared that not many banks would organize under it. It would be a grave error to put more obstacles in the way. To increase the difficulties of organizing banks would also diminish the sale of United States bonds, and thus cut off the relief expected under the measure.[70]

Senator Henderson replied that, although he was disposed to give the government every facility to carry on the war, even when the aid was of doubtful constitutionality, he must still insist on the adoption of the amendment. If he had the power he would blot out of existence every bank in the country. Nevertheless, since it was maintained by the Secretary of the Treasury, by all the members of the cabinet, and by the President himself that the bill was necessary to raise the price of United States bonds, he would support it. Yet it was very doubtful if any considerable aid could be thus secured. It

[69] *Ibid.* [70] *Ibid.*

would be far better to sell the bonds for what they could bring, and lay additional taxes.[71] Senator Carlile argued much along the same lines.[72] The amendment failed to carry, for the bank with a small capitalization appealed strongly to the western vote.

The bill allowed each bank to charge the rate of interest which was legal in the state in which it was located. Mr. Baker, in the House, demanded that the rate be uniform. But it was seen that conditions varied from state to state, and what might be a fair maximum rate in the East could not be justly applied to the banks in the West. In truth, legislation must follow, not precede, economic laws here as elsewhere.

It was decided to strike out the word "territory" in the clause which provided that banks in any state or territory might come into the national system without dissolution or reorganization. This was in accordance with the act of 1836, annulling bank charters granted by territories.[73]

§9. The time spent on the debate was exceedingly short in proportion to the far-reaching importance of the measure. The bill was introduced into the Senate January 26, but received practically no attention until February 9. Then it was placed on the main order of business in the Senate for three days. It went to the House February 12, but attracted very little attention until the 19th. On that day and the next it was discussed there, passing on the 20th, exactly as it was received from the Senate. The act upon which the national system is based was considered, therefore, but three days in the Senate and two in the House. It was introduced January 26, and on February 25 received the signature of the President.

The vote shows that, so far as they were represented, the southern states opposed the bill, while the northern states were in its favor.[74] There were, however, exceptions. No southern

[71] *Ibid.*

[72] *Ibid.*, p. 852.

[73] 5 U.S. Statutes at Large, p. 61.

[74] The vote in the Senate: The following states voted solidly for the bill: Rhode Island, Michigan, Wisconsin, Maine, Oregon, Kansas, Ohio and Massachusetts. The following cast a solid vote against the bill: Vermont, Kentucky, Missouri, Maryland, California and Illinois. The following gave one vote for and one vote against it: Connecticut, Iowa,

state gave a senatorial vote for the measure; and three northern states—Vermont, Illinois and California) if the latter may be classed as a northern state)—cast both senatorial votes against it. The vote in the House indicates more clearly than the vote in the Senate, sectional feeling and prejudice. While seven states in the Senate voted solidly in behalf of the bill, the same seven in the House cast only twenty-seven votes out of forty-four in its favor. Six states, in the Senate, including California, Illinois and Vermont, cast a solid vote against it; but the same six in the House cast only seventeen out of twenty-seven votes against it. Among the eight states which, in the House, cast a solid vote in its behalf were Minnesota, Michigan, Wisconsin, California, Delaware and Kansas. In the House six states voted solidly against the measure; but their combined vote was only thirteen in all. The votes of all the remaining states were divided. It will thus be seen that the bill was not passed by the influence of any special section. It had been consistently and bitterly fought by the friends of state banks. It required the combined power and prestige of the government to force its acceptance upon Congress.

New York, New Jersey, Minnesota and Pennsylvania. New Hampshire cast her vote (one Senator only being present(for the bill, as did Virginia, Delaware and Indiana. Total vote for the bill, 23; against it, 21.

The vote in the House: The following states cast the whole vote present for the bill: Minnesota (2), Michigan (4), Tennessee (2), Kansas (1), Delaware (1), Louisiana (1), California (3), Wisconsin (3). The following gave the whole vote present against the bill: Connecticut (3), Vermont (2), New Jersey (4), Rhode Island (1), Oregon (1), Iowa (1). The following gave a divided vote: Massachusetts (6 to 3) in favor of the bill; Ohio (9 to 11), Pennsylvania (12 to 7), Virginia (2 to 1), Maryland (2 to 2), Kentucky (1 to 7), New York (14 to 9), Indiana (5 to 4), Maine (5 to 1), Illionis (3 to 2), New Hampshire (1 to 1), Missouri (1 to 4). Total vote for the bill, 78; against it, 64.

CHAPTER VI.

THE REVISION AND EXTENSION OF THE SYSTEM.

§1. The first year's experience with the national banking system was discouraging. Eastern bankers especially were opposed to it. The unfortunate experience of the western states with "wild-cat" banks had hardened the hearts of conservative bankers against a note circulation secured by bonds. Even the success of the free banks in New York could not remove this deep-seated antagonism. In addition to this the organization of banks had been retarded by the delay of the officials at Washington in preparing notes for circulation, and in arranging other matters of detail.

Mr. Hugh McCulloch was made first Comptroller of the Currency. He was a man of brilliant parts, and wide experience, gained in the service of the State Bank of Indiana. He was now to face and meet many difficulties and discouragements. The state banks in general refused to organize under the new act. They asserted that the national banks would be destroyed, if the rebellion were not stamped out, as the national notes were secured by government bonds. They feared that Congress would be continually meddling in banking affairs. Moreover, they would suffer a considerable financial loss through the mere change of name.[1] Secretary Chase finally conceded this last point, and permitted state banks to organize as national banks without prefixing the word "national" to their titles. It was not until July 20, 1863, that the first charter was granted, and authority given to the First National Bank of Philadelphia to begin business. Several western banks received charters during the succeeding month; but few were asked for elsewhere.[2]

[1] McCulloch, *Men and Measures of Half a Century*, p. 168.

[2] *Hunt's Merchants' Magazine*, vol. xlix, p. 139.

On December 5, 1863, at a meeting of bank officers in New York, a committee which had been ordered to "take into consideration the National Bank Currency Act as to its prospective effects upon the currency of the nation and the national credit; and what action, if any, devolved upon the banks," reported that, as the banks applying for charters were mostly of small capital and located in the West and South, it was plain that the act would foster "wild-cat" banking. The committee were of the opinion that the notes, not being a legal tender, would depreciate in value; and that their use would "involve a loss to the government of the interest upon a sum equal in amount to the combined circulation of national banks, as greenbacks might have been issued to that extent by the government"—all of which was beautifully disingenuous. The report was accepted by the New York Clearing-House; and had no little effect in deterring state banks from organizing under the new act.[3]

§2. The first report of the Comptroller of the Currency was submitted November 28, 1863. It showed that since the passage of the act in February, 134 national banks had been organized. Mr. McCulloch drew attention to the unfavorable state of affairs; and, as was his duty under the law, suggested several improvements in the act that, in his opinion, might well be made.[4]

While the act was admirable in its main details, it lacked consistency in several important particulars, and thus was, therefore, in need of revision. For example, there was some doubt as to the amount of bonds which should be kept by each bank

[3]Rhode's *Journal of Banking*, 1892, p. 630; Knox, *History of Banking in the United States*.

[4]*Finance Report*, 1863, p. 49. The following table shows the location of the banks:

Maine	2	District of Columbia	1
New Hampshire	2	Illinois	7
Vermont	2	Indiana	20
Massachusetts	3	Iowa	6
Rhode Island	1	Kentukey	1
Connecticut	4	Michigan	1
New York	16	Missouri	2
New Jersey	1	Ohio	38
Pennsylvania	20	Wisconsin	4

permanently at Washington.[5] Leading financiers were not quite sure whether, if section 37 were literally construed, banks could accept the stocks of each other by way of collateral; while the intent was plainly to prevent banks from lending on their own stocks as security.[6]

Mr. McCulloch further desired that the failure of a national bank be declared *prima facie* fraudulent; and that the officers and directors be held personally responsible for the debts of an insolvent institution. This would remove the onerous conditions under which stockholders subscribed for the capital of an institution.[7] He wished the repeal of the provision that banks should deposit additional bonds to protect their circulation whenever the national securities declined in value. He thought it unfair to subject banks to the caprice of the New York stock market—and besides, Congress should not think of a decline in government securities.

He would like, also, to see a change made in the stipulations governing the amount of capital which a bank should have on commencing business. As the act stood it permitted banks to organize on a capital of $50,000, of which amount only thirty per cent. need be paid in at the commencement of business. In his judgment the smallest capital with which a bank should be allowed to start should be at least $50,000.[8]

He advised the making of the maximum interest rate uniform throughout the United States. It would be well, indeed, if the banks in the large commercial cities were relieved of all penalties for usury in order that, by raising the rate of discount, they might control the money market, much in the same way as the Bank of England controlled the market in London. Along with this was a good deal of specious nonsense about the tariff.[9]

Mr. McCulloch further suggested that banks be required to carry to their "surplus" one-sixth part of their net profits until that fund should amount to thirty per cent. of the capital. He showed the advantage of a surplus fund for covering unex-

[5] *Ibid.*, p. 50. The sections were 15 and 30.
[6] *Ibid.*
[7] *Ibid.*, p. 51.
[8] *Ibid.*, p. 52.
[9] *Ibid.*

pected losses both in normal times and in crises.[10] A wholly anomalous provision was found in the sixty-second section of the act, wherein it was made incumbent upon the comptroller to furnish state banks with national currency whenever these institutions should deposit United States securities with the treasurer at Washington. It was difficult, he said, to conceive of a measure more likely to bring the national system into conflict with the state authorities. Under it there would be banks receiving national notes without being in any measure subject to national supervision; deriving all their corporate powers from the states, and yet issuing notes not authorized by state laws. He was utterly opposed to this nondescript system, which had no justification whatever, from any point of view.[11]

The Comptroller was sanguine that the East was being rapidly converted to the belief that the national system was superior to the others, and would soon supersede state institutions. The war, although a great calamity in itself, would not be an unmixed evil if out of it there arose a system of banking which, without any interference with the rights of the states, would provide the people with a bank-note circulation absolutely safe, uniform, and universal in its scope.[12] As the internal commerce was national in its scope, so also should be the currency. During that year, however, some 1500 state banks had provided the people with a heterogeneous bank-note circulation. Surely such a system had had its day.[13] For the first time it was recognized that bank notes put into circulation by authority of the government, should be guaranteed by that government.[14]

§3. The outcome of these recommendations was the introduction of three bills into Congress, to amend the National Cur-

[10] *Ibid.* [11] *Ibid.*

[12] Section 61 provides that, on the vote of two-thirds of the stockholders of state banks, they might be legally incorporated as national banks. U. S. *Statutes at Large*, vol. xii, p. 682.

[13] *Ibid.*

[14] Mr. McCulloch was in error here. The government assumes no liability itself; it merely undertakes to provide machinery whereby the assets of a bank shall be used to meet its note obligations before other debts are liquidated.

rency Act of the preceding year. The first was reported in the Ways and Means Committee, March, 1864. It came up for discussion in the House, March 23; and was read in Committee of the Whole. Much more time was spent in the debate upon this bill than was given to the measure of the preceding year.[15] However, practically the same ground was covered; hence our treatment of it may be brief.

In the House, Representative Hooper, of Massachusetts, spoke at great length in behalf of the measure. He pointed out that most of the proposed changes were of a merely verbal character, having in view a clearer and simpler statement of the law. There were, however, several important matters to consider; among them being the removal, as far as possible, of such features in the measure as the state banks objected to, and which apparently prevented them from organizing under the act.[16] In answer to this, Mr. Brooks said that the introduction of a new bill was a confession of the failure of the national banking venture.[17] He arraigned Secretary Chase's financial policy, and ascribed to it the failure of the state banks to maintain specie payments. He maintained that there would have been no agitation for a new banking system had Mr. Chase not misused the 170 millions of gold which he had received from state banks. He held in his hand a pamphlet, published by the son of Albert Gallatin, which proved that if the loans from the banks had been judiciously managed the war could have been carried on upon a "hard money" basis, and there would have been no inflation of prices.[18] He asked that some representatives of the banking interests of New York city should be permitted to appear before the House, to present certain amendments proposed by them. Mr. Hooper objected, and explained that Mr. Lyman, head of the New York Clearing-House, Mr. Gallatin, and eight or ten others, had spent nearly a whole afternoon with the Committee on Ways and Means, and had submitted their amendments; which, however, had nearly all been adopted by the committee previous to the inter-

[15] *Congressional Globe*, 38th Congress, 1st session, p. 1254.
[16] *Ibid.*, p. 1255. [17] *Ibid.*, p. 1267. [18] *Ibid.*, p. 1268.

view. The only amendment recommended by these gentlemen and not adopted by the committee, was that favoring the removal of the Comptroller's office to New York city.[19]

Mr. Kalbfleisch, of New York, objected to section 41 of the act, inasmuch as he wished to give the states power to tax national banks in identically the same way in which the Federal government taxed state banks.[20] As the section stood, a state could tax the shares of a bank as personal property, and its real estate, but could not tax the circulation or the capital paid in. Mr. Hooper protested against this suggestion. He understood that the proposal came from Albany; and that there was then pending before the New York Legislature a bill for taxing national banks, as such. Mr. H. W. Tracy, of Pennsylvania, then moved that a proviso be added to the effect "that no provision contained in this act . . . shall be so construed as to prohibit a state from imposing such taxes upon the dividends of the several banking associations organized therein under this act as shall to the Legislature thereof seem just and reasonable." Mr. Hooper thereupon pointed out that the law, as it stood, did not prohibit a state from taxing individual and personal holdings in a bank, but simply prohibited taxation of the bank itself. Mr. Eldridge retorted that individuals composing the corporation were, in many cases, inaccessible, and that if no provision for the taxation of the new institutions was inserted in the bill, the whole banking capital of the country ultimately would be transferred to the national system. Mr. Morrill argued that the exemption of the capital of national banks from state taxation was just, because a great part of the capital of these banks would be invested in United States bonds; and these were, in any case, not taxable by the individual states. The banks were already taxed on their circulation by the Federal government; and it certainly would be unjust in view of this to subject their notes to taxation again. But these arguments did not convince the two following speakers, Mr. J. C. Allen and Mr. Washburn, both of whom spoke in favor of state taxation of national bank

[19] *Ibid.*, 1287.

[20] *Ibid.*, p. 1392.

circulation.[21] Mr. Stevens made a vigorous rejoinder to them. It was evident, he said, that several members had not given the matter sufficient consideration. In his opinion it would be unconstitutional for state governments to tax the circulation of banks which had received their charters from the Federal government. If they were permitted to do so they could tax the national banks out of existence. On the vote being taken the amendment was declared lost.

Mr. G. W. Hotchkiss, of New York, thereupon moved that associations organized under the act should be liable to the same state and municipal taxes as were imposed by the state and local authorities upon state corporations. He said that no valid argument could be advanced against his suggestion. The mere fact that national banks had invested in United States bonds was no reason why they should not be taxed.[22] Mr. Kasson explained that the bill under discussion was not a revenue measure; and that in another bill shortly to be brought up members would find that national banks were to be taxed heavily enough. Mr. Holman charged that 900 millions of favored capital, the earnings, or rather the spoils, of directors and shareholders, made out of the war, was to be relieved from taxation. The power and wealth thus created and protected would have a fearful influence over the people and over political parties. The banks would be a power stronger than the government—an oppressor of labor, a monster dangerous to public liberty![23] Mr. Mallory argued to the same end. The national banks would receive six per cent. in gold on their bondholdings, which was equal to ten per cent. in currency. Why, then, should they not be subject to state taxation? Mr. Morrill, of Vermont, replied that in that case the states could with equal justice tax government ships and buildings. Although national banks would escape state taxation they were to be taxed heavily for national purposes.[24] After protracted discussion the amendment was put to the vote and carried. This

[21] *Ibid.*, p. 1393.
[22] *Ibid.*, p. 1394.
[23] *Ibid.*
[24] *Ibid.*

was disappointing to the chief supporters of the bill; and by a vote of 90 to 44 the measure was laid on the table.[25]

On April 11 Mr. Hooper introduced House Bill No. 395; being an amended form of the bill just discussed. The only change was in section 41, which dealt with taxation. The amended section provided that nothing in the act should be so construed as to prevent the market value of the shares in any national bank being included in the personal property of the person who held them, and as such liable to state and municipal taxation.[26] After much discussion, similar to that indulged in before, the section was changed to read:

"And that nothing in this act shall be construed to prevent the taxation by states of the capital stock of banks organized under this act, the same as the property of other moneyed corporations, for state or municipal purposes; but no state shall impose any tax upon such associations or their capital, circulation, dividends, or business, at a higher rate of taxation than shall be imposed by such state upon the same amount of moneyed capital in the hands of individual citizens of such state, provided that no state tax shall be imposed on any part of the capital stock of such association invested in the bonds of the United States deposited as security for its circulation." [27]

On April 12 the Senate made the House bill a special order for the 26th. On that day both measures were taken up.[28]

When the tax section of the House bill was reached, it was found that the Finance Committee had accepted the plan adopted by the House, with the exception of exempting the capital invested in United States bonds from taxation. Senator Chandler, of Michigan, objected to this, saying it gave the right of unlimited taxation to the states.[29] Senator Fessenden replied that the Committee on Finance had tried to make the bill acceptable, and not to kill it. The committee thought the proviso adopted by them would be beneficial to the system. He said that the proposition as it came from the House of Repre-

[25] *Ibid.*, 1453. [26] *Ibid.*, p. 1680. [27] *Ibid.*, p. 1682.
[28] *Ibid.*, p. 1865. [29] *Ibid.*, p. 1871.

sentatives was delusive. Stocks in the hands of individuals could be taxed, but the capital stock of the banks invested in bonds was exempted. There was no danger of discrimination against national banks; because the amendment of the committee was to the effect that the states "must tax this property thus invested, precisely as they taxed other personal property, and to no greater extent." Senator Chandler, however, was of a different opinion. It was his judgment as a practical business man and banker that, if states were allowed to tax the capital invested in United States bonds, the national system would be dealt a blow from which it could not recover.[30]

Senator Sumner remarked that whether Mr. Chandler's proposition was practical or not, he was sure it was patriotic. If each state were permitted to tax national banks their uniformity would be destroyed. He thought the national banks should be taxed, and heavily; but not by the states.[31]

Senator Pomeroy moved in amendment to the committee's tax agreement that no part of the capital of a national institution except that invested in United States bonds, should be exempted from state or municipal taxation. In this way the corporation would be taxed direct, and not through the stockholders. This in itself would be desirable, inasmuch as in many cases the stockholders were difficult to reach.[32] Senator Collamer supported the amendment. In many states taxes for the support of the poor, for schools, for highways and bridges were levied upon the capital of banks. There was, in his opinion, no reason why this source of revenue should be cut off.

Senator Sumner was rather impatient with the arguments brought forth by the last speakers. He was tired of hearing so much of "states' rights." Every effort to increase the army, the navy, and the financial resources of the government, was met by objections in the name of states' rights. It was hard to meet states' rights not only on the battle-field but in the Senate chamber as well. He proceeded to discuss the constitutional aspect of the question; and came to the conclusion that the

[30] *Ibid.* [31] *Ibid.*, p. 1873. [32] *Ibid.*, p. 1953.

states had no legal right to tax banks which had received their charters from the Federal government, since they could thus drive them out of existence. The principles laid down in 1819 by Chief Justice Marshall of the Supreme Court were applicable now.[33] Senator Johnson, of Maryland, contended that this was a wrong interpretation of that celebrated case. He said that the court had admitted the right of a state to tax the real estate and stock, but not the charter itself, of a corporation having its charter from the national government.[34] On Senator Pomeroy's amendment being put to a vote it was declared lost.[35]

Senator Chandler suggested that the words "state banks" should be substituted for "moneyed capital," so that section 41 would prevent state or municipal authorities from levying a greater tax upon national banks than upon their own state institutions. With this amendment the section was adopted.[36] On May 5 the bill, with the amendments adopted in the Com-

[33] *McCulloch* v. *Maryland* (4 Wheaton, 316). The substance of the decision is as follows:

The Constitution derives its force, not from the states, but from the people, and creates a government which, although limited in its powers, is supreme within its sphere of action.

The power to create a corporation, although not an expressly granted power, may be implied. The great powers of taxation, borrowing money, regulating commerce, waging war, and maintaining armies and navies, being entrusted to the federal government, indicate that it is likewise entrusted with ample means for their execution.

Raising revenue and applying it to national purposes, implies the power to convey money from one place to another, and of selecting an appropriate method of such conveyance.

It is true the creation of a corporation appertains to sovereignty, but not to one portion of sovereignty rather than another. Since the power of sovereignty, in the United States, is divided between the states and the federal government, the means necessary to carry these into effect belong to both.

Moreover, the Constitution has expressly granted the power to enact all laws "necessary and proper," which is not a clause of limitation, as is shown by its location (among the powers granted), and by its purporting to grant an additional power. "Let the end be legitimate, let it be within the scope of the Constitution; and all means which are appropriate, which are plainly adapted to that end, which are not prohibited, but consist with the letter and spirit of the Constitution, are constitutional." A corporation is such a means. (Summarized by Professor J. Laurence Laughlin, *Principles of Money*, p. 470).

[34] *Congressional Globe*, 38th Congress, 1st session, p. 1956.

[35] *Ibid.*, p. 1957.

[36] *Ibid.*, 1989.

mittee of the Whole, was again discussed in the Senate. Although there was another protracted discussion on the taxation features of the measure, no changes were made.[37]

A good deal of time was given, in the House, to the matter of the redemption of national bank notes. Mr. Wilson, of Iowa, was in favor of requiring all national banks to redeem their notes in one place—New York, the financial centre of the country.[38] He said that no one could understand so well as a western man the evils of high exchange. He had seen it as high as fifteen per cent.; and he feared that unless the notes of the national banks of the West were redeemable in New York they would pass current at a discount of from two to three per cent. there. Mr. Alley replied that as the notes were receivable for all debts due the government, except for payment of import duties, they could never pass at a discount in the East.[39] Mr. Davis expressed surprise that Mr. Wilson, a representative of the West, should wish to make western banks tributary to New York. Mr. Kasson thought that places of redemption at the centre of trade were all that was necessary; and this finally met the views of the House.[40]

Mr. Boutwell moved to amend the section dealing with the depositing of United States funds in national banks. He was strongly of the opinion that such funds should be deposited in the Treasury, and not in national banks. Mr. Ward supported the amendment, and cited instances of losses of public money in state banks. Mr. Stevens objected to the amendment. It would be better to abolish banks altogether, if they could not be used for public deposits. In his judgment, the withdrawing of enormous amounts of public funds from circulation by placing them in the Sub-Treasury, would seriously interfere with prices. Nevertheless, Mr. Boutwell's amendment was adopted.

Senator Collamer secured the passing of an amendment which required that national bank notes should be a legal ten-

[37] *Ibid.*, p. 2128.
[38] *Ibid.*, p. 1378.
[39] *Ibid.*, p. 1379.
[40] *Ibid.*, p. 1380.

der for all debts due to the government, except for duties upon imports; and for all sums owing by the government, except for interest upon the national debt. Also, each association was obliged to receive the notes of every other association, at par.[41] These features marked a great advance over the act of 1863.

After a great deal of discussion in both branches of Congress it was seen that there were serious differences between them. A Committee of Conference was appointed; the members of which were Messrs. Hooper, Washburn and Mallory, representing the House, and Senators Sherman, Porter and Johnson, the Senate. The matters upon which there was divergence of opinion were, in brief, as follows: the 22nd section which limited the total capital stock of all national banks to $300,000,000, and abolished the provision in the act of 1863 which distributed this according to population and "moneyed capital"; the 36th section which included Leavenworth among the redemption cities; the 37th, which substituted Providence and Buffalo for Portland; the 32nd, which made a distinction between banks east and west of the Alleghanies—the Senate having proposed to permit banks west of the Alleghanies to redeem their notes at a slight discount; and the 41st section, which dealt with state taxation of national banks. The committee finally came to an agreement and reported May 31, 1864.[42] The measure now proved acceptable both to the House and the Senate, and was speedily adopted. It thereupon received the signature of the President and became law June 3, 1864.[43]

§4. The act of June 3, 1864, provided for the establishment of a bureau in the Treasury Department to supervise the operations of all national banks. The chief officer of the bureau was designated the Comptroller of the Currency. He was placed under the general direction of the Secretary of the Treasury; and was appointed by the President, on the recommendation of the Secretary, for a term of five years.[44] He was removable

[41] *Ibid.*, p. 2182.

[42] *Ibid.*, p. 2621.

[43] 13 *U.S. Statutes at Large*, p. 99.

[44] 13 *Statutes at Large*, p. 99.

only by the President; and for reasons which must be communicated to the Senate.[45]

An association was to consist of any number of persons, not less than five, who subscribed to the provisions of the act.[46] It was to be a body-corporate, from the date of issue of its certificate, for twenty years. Its powers were all such as are incidental to banking—discounting, receiving deposits, lending money on personal security, buying and selling exchange, coin and bullion; and issuing and circulating notes according to the act.

No banking association could be organized with a capital less than $200,000 in cities whose population exceeded 50,000 persons; or, below that population, with a capital less than $100,000; except that, with the approval of the Secretary of the organized in any place the population of which did not exceed Treasury, banks with a capital not less than $50,000 might be 6,000 inhabitants.[47] The shareholders in such banks were held individually responsible, equally and ratably, for all debts contracted, to the extent of the par value of their stocks, in addition to the amount invested.[48]

Each association, before commencing business, was required to deliver to the Treasurer of the United States interest-bearing bonds to an amount not less than one-third of the paid-up capi-

[45]He was obliged to give a bond in the penalty of $100,000 for the faithful discharge of his duties; was to have a competent deputy who was obliged to give a bond for $50,000; and neither the Comptroller nor the Deputy-Comptroller could be "interested" in any association issuing currency under the provisions of the act.

[46]*Ibid.*, p. 100.

[47]*Ibid.*, p. 101. As mentioned, each association was to be managed by not less than five directors; one of whom was to be its president. Each director must own at least ten shares of the capital stock, in his own right, and in no way pledged for any debt. Elections of directors were to be held annually, in the month of January. Each shareholder was to have one vote for every share of stock owned by him.

[48]*Ibid.*, p. 103. An exception was made to this provision in the case of the Bank of Commerce of New York, an institution which had reached a strong position, and which had rendered signal service to the government. The double liability clause was not to be enforced in the case of any state bank organizing as a national institution, provided it had a capital of not less than $5,000,000, and a surplus equal to twenty per cent. of that sum.

tal stock. The deposit of bonds was to be increased as the capital increased; so that the above proportion should always be maintained. Thereupon, the association was entitled to receive from the Comptroller of the Currency circulating notes equal in amount to ninety per cent. of the curretn market value of the bonds; but not exceeding ninety per cent. of the par value of the bonds if they bore interest at the rate of five per cent. or more, per annum.[49] The note-issue of each bank was limited to an amount equal to its paid-up capital stock; while the total to be issued by all banks was not to exceed $300,000,000.[50] The bonds were to be held exclusively as security for the notes. The interest on them was payable to the bank as long as it redeemed its notes at par.[51] Should the market value of the bonds, in the care of the Treasurer, ever fall below the amount of the circulation issued upon them, the difference was to be immediately made good in cash or additional bonds. The notes were made receivable at par in all parts of the United States in payment of taxes, excise dues, and for public lands, as well as for all other debts due the United States, except for duties on imports; and also for all salaries and other debts of the United States to individuals, corporations, and associations within the United States, except for interest upon the public debt, and for the redemption of the national currency.[52]

Banks were forbidden to hold real estate, except such as might be necessary for business purposes, or to secure debts. In the lattera case it was to be sold within five years.[53] This was necessary in order that the bank might keep its assets in "liquid" form.

Each bank was permitted to charge upon loans and discounts the rate of interest which the law of the state, where it was established, allowed to banks organized under state laws. But where no legal rate was fixed by the state it was not to exceed 7 per cent.

[49] *Ibid.*, p. 105. [50] *Ibid.*, p. 106. [51] *Ibid.*, p. 107.
[52] *Ibid.* [53] *Ibid.*

One of the most important provisions of the law of 1864 is to be found in section 31 of the act. It was provided that each association in certain selected cities (mentioned below) should have on hand, at all times, in lawful money of the United States, a reserve equal to at least 25 per cent. of the aggregate amount of its notes in circulation, and its deposits; and that every other association should have on hand an amount equal to at least 15 per cent. of its demand liabilities. If the reserve should fall below these limits no bank could increase its liabilities by making new loans and discounts, otherwise than by discounting bills of exchange payable at sight. No bank, under these circumstances, could declare any dividend from its profits until the required proportion between the aggregate amount of its outstanding notes and deposits and its lawful reserve should have been restored. Three-fifths of the fifteen per cent., however, might consist of balances deposited in banks in central cities.[54] Clearing-house certificates were to be considered lawful money, and might form part of the reserves.

It was also enacted that each banking association in the reserve cities should provide for the redemption of its own notes in New York at par.[55] To do so it might keep half of its lawful reserves in the city of New York. Other banks were required to redeem their notes in the reserve cities. All banks, in addition, were obliged to redeem their notes at their own counters. Each association was required to take, at par, the notes of any other national bank which might be presented to it.

Dividends might be declared semi-annually; but no dividend could be declared until one-tenth of the net profits had been carried to the surplus fund. This was to be continued until

[54]These cities were: St. Louis, Louisville, Chicago, Detroit, Milwaukee, New Orleans, Cincinnati, Cleveland, Pittsburg, Baltimore, Philadelphia, Boston, New York, Albany, Leavenworth, San Francisco and Washington. It was also provided that the cities of Charleston and Richmond might be added to the list of cities whenever, in the opinion of the Comptroller, the condition of the Southern states should warrant it.

[55]*Ibid.*, p. 109.

this fund should amount to twenty per cent. of the capital stock.[56]

Associations were forbidden to extend loans upon collateral which consisted of their own stocks; nor could they acquire their own stock unless it was necessary to do so to protect themselves against debts contracted in good faith. In that case, the stock must be sold within a period of six months.

The extent of a bank's indebtedness could not exceed its paid-up capital stock except (1) on account of its notes of circulation, (2) of moneys deposited with such association, (3) of bills of exchange or drafts drawn against money actually on deposit to the credit of the bank or (4) on account of liabilities to its shareholders for dividends and reserved profits.[57]

National banks were further forbidden to declare any dividend exceeding the net profits on hand; deducting from these profits losses and bad debts. For this purpose all debts on which interest was past due and unpaid for six months, unless they were well secured and in process of collection, were to be held bad.[58]

Associations were obliged to pay to the United States a tax of one per cent. per annum on the average amount of their notes in circulation; one-half of one per cent. on the average amount of their deposits; and one-half of one per cent. on the capital stock beyond the amount invested in United States bonds. The shares of each association might be taxed as personal property by the state in which it was located, and not elsewhere, at a rate not greater than was imposed upon other "moneyed capital" in the hands of the citizens of the state; and the real estate of national banks was to be subject to state, county, and municipal taxes to the same extent as other real estate.[59]

A very important provision in regard to state banks was that providing that any bank established under state laws might, by the vote of the owners of two-thirds of its capital stock, be

[56] *Ibid.*

[57] *Ibid.*, p. 110.

[58] *Ibid.*, p. 111.

[59] *Ibid.*, p. 112.

reorganized under the act as a national bank, without change of stockholders or directors, or in the amount of its shares. The capital of such a bank, however, could not be less than that prescribed in the act for other national banks.

It was enacted that all national associations, when designated for that purpose by the Secretary of the Treasury, should be depositaries of all public funds except receipts for customs.[60] They might also be employed as financial agents of the government. The Secretary must require of all such associations satisfactory security, by the deposit of United States bonds and otherwise, for the safe keeping, and the prompt payment, of the public funds deposited with them.

If any national bank sholud fail to redeem, in lawful money, any of its circulating notes on demand, the holder of such notes could cause them to be protested.[61] The Comptroller should then declare the bonds, pledged by the association, forfeited; and notify the holders of the notes to present them for payment at the Treasury. For the notes thus paid at the Treasury, the Comptroller might either cancel an amount of bonds equal, at the market rate, not exceeding par, to the notes so paid, or might cause the necessary amount of bonds to be sold at auction in the city of New York; or he might sell the necessary amount by private sale, provided that they should be sold at private sale for less than the market rate, nor less than par. If the proceeds of the bonds, pledged by the association, should be insufficient to cover the amount expended in payment of its notes, the United States should have a first and paramount lien for the deficiency upon all the assets of the association.

The Comptroller was also authorized, if need should arise, to appoint a receiver, who should take charge of the assets of the bank; and, if necessary, enforce the clause of the act dealing with the individual liability of shareholders. After the government was reimbursed for any deficiency arising from the redemption of the notes, the Comptroller was to make a ratable payment of the debts of the association. The remainder of the

[60] *Ibid.*, p. 113. [61] *Ibid.*, p. 114.

assets, if any, after payment of these debts, were paid over to the shareholders.[62]

It was also provided that the Comptroller, with the approbation of the Secretary of the Treasury, should, as often as it was deemed necessary, appoint suitable persons to examine the affairs of each banking association.[63] Such inspectors could not be directors, or officers, in any bank so examined. Full and detailed reports of these examinations were to be made to the Comptroller.

The act was, in substance, a revision of the act of 1863. The principal points of difference between the two measures were the following: The act of 1863 made no provision for the redemption of the circulation by the banks of the principal cities; but simply provided that each bank should redeem its circulation at its own counter; and that it should have, for that purpose, a reserve equal to twenty-five per cent, of its demand liabilities, of which three-fifths might be deposited with associations in reserve cities.[64] A smaller minimum of capital for banks was required in 1863; and a longer period was given for the payment of instalments on the capital stock.[65] The act of 1864 made the way easier for state banks to become national institutions; inducing them to become such by permitting them to retain their former name. The extent to which national institutions might be taxed by state and municipal authorities was more definitely defined. Loans were no longer permitted to be made on real estate. The act of 1863 required that the total circulation of $300,000,000 should be distributed throughout the country in proportion to the population and banking capital of the several states. While the total circulation was still limited, in the following year, the other restrictions were removed.[66]

[62] *Ibid.*, p. 115.

[63] *Ibid.*, p. 116.

[64] 12 *Statutes at Large*, p. 677. These cities were: Boston, Providence, New York, Philadelphia, Baltimore, Cincinnati, Chicago, St. Louis, and New Orleans.

[65] *Ibid.*, p. 667.

[66] *Ibid.*, p. 669.

§5. It remained, however, for the legislation of 1865 to place the national system on an assured foundation.[67] In the internal revenue act of that year it was provided that each national banking association or state banking association, should pay a tax of ten per cent. on the amount of notes of any state bank or state banking association, paid out by it after July 1, 1866.[68] This, of course, placed national banks in a superior position for competitive purposes; although the note-issue function of a bank is not so important now as then—at least in the large commercial centres, where many powerful state banks compete successfully with national institutions.

The same legislation provided that any state bank, with a paid-up capital of not less than $75,000, which applied before July 1, 1866, for authority to organize as a national bank, should have the preference over any new organization; provided that the Comptroller found its affairs in good condition.[69] Under these favorable circumstances the number of national banks rapidly increased.

It is not the purpose of this study, however, to do more than trace the history of the establishment of this great banking system, and to state the underlying causes for its rise. Since its foundation it has played a great rôle in the commercial and industrial life of the nation. It has to its credit splendid achievements. As the years have gone by they have disclosed, to be sure, grave, but not vital, defects. Perhaps one can safely say that, with the exception of the tariff, no other institution has been, or continues to be, so much discussed, in its vital relationship to the prosperity of the people, as the national banking system. With these relations and its history it is the intention of the writer to deal in a later volume.

[67] 13 *Ibid.*, p. 469.

[68] By subsequent legislation this provision was made to include also the notes of any person, firm, association, corporation, town, city, or municipal corporation, and the tax was imposed both on the issuer of the notes and on any person, bank, corporation, etc., paying them out.—13 *Statutes at Large*, p. 146; 15 *Ibid.*, p. 6; 18 *Ibid.*, p. 311.

[69] 13 *Statutes at Large*, p. 469.

APPENDICES

APPENDIX I.

Some of the more important sections of the National Bank Act as amended.

FORMATION OF NATIONAL BANKING ASSOCIATIONS.

Sec. 5133.—Associations for carrying on the business of banking under this Title may be formed by any number of natural persons, not less in any case than five. They shall enter into articles of association, which shall specify in general terms the object for which the association is formed, and may contain any other provisions, not inconsistent with law, which the association may see fit to adopt for the regulation of its business and the conduct of its affairs. These articles shall be signed by the persons uniting to form the association, and a copy of them shall be forwarded to the Comptroller of the Currency, to be filed and preserved in his office.

Act June 3, 1864, c. 106, sec. 5; 13 Stat. L., 100.

REQUISITES OF ORGANIZATION CERTIFICATE.

Sec. 5134.—The persons uniting to form such an association shall, under their hands, make an organization certificate, which shall specifically state:

First. The name assumed by such association; which name shall be subject to the approval of the Comptroller of the Currency.

Second. The place where its operations of discount and deposit are to be carried on, designating the State, Territory, or district, and the particular county and city, town, or village.

Third. The amount of capital stock and the number of shares into which the same is to be divided.

Fourth. The names and places of residence of the shareholders and the number of shares held by each of them.

Fifth. The fact that the certificate is made to enable such persons to avail themselves of the advantages of this Title.

NOTE.—For authority to change names or locations see act May 1, 1886.

Act June 3, 1864, c. 106, sec. 6; 13 Stat. L., 101.

CORPORATE POWERS OF ASSOCIATION.

Sec. 5136.—Upon duly making and filing articles of association and an organization certificate, the association shall become, as from the date of the execution of its organization certificate, a body corporate, and as such, and in the name designated in the organization certificate, it shall have power—

First. To adopt and use a corporate seal.

Second. To have succession for the period of twenty years from its organization, unless it is sooner dissolved according to the provisions of its articles of association, or by the act of its shareholders owning two-thirds of its stock, or unless its franchise becomes forfeited by some violation of law.

Third. To make contracts.

Fourth. To elect or appoint directors, and by its board of directors to appoint a president, vice-president, cashier, and other officers, define their duties, require bonds of them and fix the penalty thereof, dismiss such officers or any of them at pleasure, and appoint others to fill their places.

Sixth. To prescribe, by its board of directors, by-laws not inconsistent with law, regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this Title.

But no association shall transact any business except such as is incidental and necessarily preliminary to its organization, until it has been authorized by the Comptroller of the Currency to commence the business of banking.

Act June 3, 1864, c. 106, sec. 8; 13 Stat. L., 101.

POWER TO HOLD REAL PROPERTY.

Sec. 5137.—A national banking association may purchase, hold, and convey real estate for the following purposes, and for no others:

First. Such as shall be necessary for its immediate accommodation in the transaction of its business.

Second. Such as shall be mortgaged to it in good faith by way of security for debts previously contracted.

Third. Such as shall be conveyed to it in satisfaction of debts previously contracted in the course of its dealings.

Fourth. Such as it shall purchase at sales under judgments, decrees, or mortgages held by the association, or shall purchase to secure debts due to it.

But no such association shall hold the possession of any real estate under mortgage, or the title and possession of any real estate purchased to secure any debts due to it, for a longer period than five years.

Act June 3, 1864, c. 160, sec. 28, 13 Stat. L., 107.

REQUISITE AMOUNT OF CAPITAL.

Sec. 5138 [as amended 1900].—No association shall be organized with a less capital than one hundred thousand dollars, except that banks with a capital of not less than fifty thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed six thousand inhabitants, and except that banks with a capital of not less than twenty-five thousand dollars may, with the sanction of the Secretary of the Treasury, be organized in any place the population of which does not exceed three thousand inhabitants. No association shall be organized in a city the population of which exceeds fifty thousand persons with a capital of less than two hundred thousand dollars.

Act June 3, 1864, c. 106, sec. 7; 13 Stat. L., 101.

Act Mar. 14, 1900, c. 41, sec. 10; 31 Stat. L., 48.

NATIONAL BANKS MAY INCREASE CAPITAL STOCK.

Sec. 5142.—Any association formed under this Title may, by its articles of association, provide for an increase of its capital from time to time, as may be deemed expedient, subject to the limitations of this Title. But the maximum of such increase to be provided in the articles of association shall be determined by the Comptroller of the Currency; and no increase of capital shall be valid until the whole amount of such increase is paid in, and notice thereof has been transmitted to the Comptroller of the Currency, and his certificate obtained specifying the amount of such increase of capital stock, with his approval thereof, and that it has been duly paid in as part of the capital of such association.

Act June 3, 1864, c. 106, sec. 13; 13 Stat. L., 103.

RIGHT OF SHAREHOLDERS TO VOTE; PROXIES AUTHORIZED.

Sec. 5144.—In all elections of directors, and in deciding all questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or book-

keeper of such association shall act as proxy; and no shareholder whose liability is past due and unpaid shall be allowed to vote.

NOTE.—The Circuit Court of the United States, in United States *v.* Barry, 36 F. R., 246, held that the words "liability past due and unpaid" referred only to unpaid subscriptions for stock.

Act June 3, 1864, c. 106, sec. 11; 13 Stat. L., 102.

ELECTION OF DIRECTORS.

Sec. 5145.—The affairs of each association shall be managed by not less than five directors, who shall be elected by the shareholders at a meeting to be held at any time before the association is authorized by the Comptroller of the Currency to commence the business of banking; and afterward at meetings to be held on such day in January of each year as is specified therefor in the articles of association. The directors shall hold office for one year, and until their successors are elected and have qulaified

Act June 3, 1864, c. 106, secs. 9, 10; 13 Stat. L., 102.

REQUISITE QUALIFICATION OF DIRECTORS.

Sec. 5146 [as amended 1905].—Every director must, during his whole term of service, be a citizen of the United States, and at least three-fourths of the directors must have resided in the State, Territory, or District in which the association is located for at least one year immediately preceding their election and must be residents therein during their continuance in office. Every director must own in his own right at least ten shares of the capital stock of the association of which he is a director, unless the capital of the bank shall not exceed twenty-five thousand dollars, in which case he must own in his own right at least five shares of such capital stock. Any director who ceases to be the owner of the required number of shares of the stock, or who becomes in any other manner disqualified, shall thereby vacate his place.

Act June 3, 1864, c. 106, secs. 9, 10; 13 Stat. L., 102.

Act Feb. 28, 1905; 33 Stat. L., 818, c. 1163.

INDIVIDUAL LIABILITY OF SHAREHOLDERS.

Sec. 5151.—The shareholders of every national banking association shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such association, to the extent of the amount of their stock therein, at the par value thereof, in addition to the amount invested in such shares; except that shareholders of any banking association now existing under State laws, having not less than five millions of dollars of capital actually paid in, and a surplus of twenty per centum on hand, both to be determined by the Comptroller of the Currency, shall be liable only to the amount

invested in their shares; and such surplus of twenty per centum shall be kept undiminished, and be in addition to the surplus provided for in this Title; and if at any time there is a deficiency in such surplus of twenty per centum, such association shall not pay any dividends to its shareholders until the deficiency is made good; and in case of such deficiency, the Comptroller of the Currency may compel the association to close its business and wind up its affairs under the provisions of chapter four of this Title.

NOTE.—See act of June 30, 1876, for enforcement of liability prescribed by this section in cases of voluntary liquidation.

Act June 3, 1864, c. 106, sec. 12; 13 Stat. L., 102.

EXECUTORS, TRUSTEES, ETC., NOT PERSONALLY LIABLE.

Sec. 5152.—Persons holding stock as executors, administrators, guardians, or trustees shall not be personally subject to any liabilities as stockholders; but the estates and funds in their hands shall be liable in like manner and to the same extent as the testator, intestate, ward, or person interested in such trust-funds would be, if living and competent to act and hold the stock in his own name.

Act June 3, 1864, c. 106, sec. 63; 13 Stat. L., 118.

NATIONAL BANKING ASSOCIATIONS TO BE DEPOSITARIES OF PUBLIC MONEYS.

Sec. 5153 [as amended 1907].—All national banking associations, designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, under such regulations as may be prescribed by the Secretary; and they may also be employed as financial agents of the Government; and they shall perform all such reasonable duties, as depositaries of public money and financial agents of the Government, as may be required of them. The Secretary of the Treasury shall require the associations thus designated to give satisfactory security, by the deposit of United States bonds and otherwise, for the safekeeping and prompt payment of the public money deposited with them, and for the faithful performance of their duties as financial agents of the Government: *Provided*, That the Secretary shall, on or before the first of January of each year, make a public statement of the securities required during that year for such deposits. And every association so designated as receiver or depositary of the public money shall take and receive at par all of the national currency bills, by whatever association issued, which have been paid into the Government for internal revenue, or for loans or stocks: *Provided*, That the Secretary of the Treasury shall distribute the deposits herein provided for, as far as practicable, equitably between the different States and sections.

NOTE.—For other provisions relating to duties and liabilities of depositaries see following sections of the Revised Statutes o fthe United States:

Sec. 3641. Transfer of moneys from depositaries to Treasury authorized.
Sec. 3641. Transfer of postal deposits.
Sec. 3642. Accounts of postal deposits.
Sec. 3643. Entry of each deposit, transfer, and payment.
Sec. 3644. Public moneys in Treasury and depositaries subject to draft of Treasurer.
Sec. 3645. Regulations for presentment of drafts.
Sec. 3646. Duplicates for lost or stolen checks authorized.
Sec. 3647. Duplicate check when officer who issued is dead.
Sec. 3648 Advances of public moneys prohibited.
Sec. 3649. Examination of depositaries.

Act June 3, 1864, c. 106, sec. 45; 13 Stat. L., 113.

Act Mar. 3, 1901, c. 871, sec. 1; 31 Stat. L., 1448.

Act Mar. 4, 1907; 34 Stat. L., 1290.

INTEREST ON PUBLIC DEPOSITS. ACT MAY 30, 1908.

Sec. 15.—That all national banking associations designated as regular depositaries of public money shall pay upon all special and additional deposits made by the Secretary of the Treasury in such depositaries, and all such associations designated as temporary depositaries of public money shall pay upon all sums of public money deposited in such associations interest at such rate as the Secretary of the Treasury may prescribe, not less, however, than one per centum per annum upon the average monthly amount of such deposits: *Provided, however*, That nothing contained in this Act shall be construed to change or modify the obligation of any association or any of its officers for the safekeeping of public money: *Provided further*, That the rate of interest charged upon such deposits shall be equal and uniform throughout the United States.

Act May 30, 1908, sec. 15.

DEPOSIT OF BONDS REQUIRED BEFORE ISSUE OF CIRCULATING NOTES.

Sec. 5159.—Every association, after having complied with the provisions of this Title, preliminary to the commencement of the banking business, and before it shall be authorized to commence banking business under this Title, shall transfer and deliver to the Treasurer of the United States any United States registered bonds, bearing interest, [*to an amount not less than thirty thousand dollars and not less than one-third of the capital stock paid in.*] Such bonds shall be received by the Treasurer upon deposit and shall be otherwise disposed of, in pursuance of the provisions of this Title.

NOTE.—The italicized words are held to be modified by the acts of June 20, 1874, and July 12, 1882. Section 4, act of June 20, 1874, provides in part that the amount of bonds on deposit for circulation shall not be reduced below $50,000. This determines the amount of bonds required to be deposited by banks organizing with capital stock over $150,000.

Banks having a capital of $150,000, or less, are not required to keep on deposit bonds in excess of one-fourth of the capital stock as security for their circulating notes, by act July 12, 1882, chapter 290, section 8.

Act June 3, 1864, c. 106, sec. 16; 13 Stat. L., 104.

DELIVERY OF CIRCULATING NOTES. ACT OF MARCH 14, 1900.

SEC. 12.—That upon the deposit with the Treasurer of the United States, by any national banking association, of any bonds of the United States in the manner provided by existing law, such association shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited; and any national banking associations now having bonds on deposit for the security of circulating notes, and upon which an amount of circulating notes has been issued less than the par value of the bonds, shall be entitled, upon due application to the Comptroller of the Currency, to receive additional circulating notes in blank to an amount which will increase the circulating notes held by such association to the par value of the bonds deposited, such additional notes to be held and treated in the same way as circulating notes of national banking associations heretofore issued, and subject to all the provisions of law affecting such notes: *Provided*, That nothing herein contained shall be construed to modify or repeal the provisions of section fifty-one hundred and sixty-seven of the Revised Statutes of the United States, authorizing the Comptroller of the Currency to require additional deposits of bonds or of lawful money in case the market value of the bonds held to secure the circulating notes shall fall below the par value of the circulating notes outstanding for which such bonds may be deposited as security: *And provided further*, That the circulating notes furnished to national banking associations under the provisions of this Act shall be of the denominations prescribed by law, except that no national banking association shall, after the passage of this Act, be entitled to receive from the Comptroller of the Currency, or to issue or reissue or place in circulation, more than one-third in amount of its circulating notes of the denomination of five dollars: *And provided further*, That the total amount of such notes issued to any such association may equal at any time but shall not exceed the amount at such time of its capital stock actually paid in: *And provided further*, That under regulations to be prescribed by the Secretary of the Treasury any national banking association may

substitute the two per centum bonds issued under the provisions of this Act for any of the bonds deposited with the Treasurer to secure circulation or to secure deposits of public money; and so much of an Act entitled "An Act to enable national banking associations to extend their corporate existence, and for other purposes," approved July twelfth, eighteen hundred and eighty-two, as prohibits any national bank which makes any deposit of lawful money in order to withdraw its circulating notes from receiving any increase of its circulation for the period of six months from the time it made such deposit of lawful money for the purpose aforesaid, is hereby repealed, and all other Acts or parts of Acts inconsistent with the provisions of this section are hereby repealed.

Act Mar. 14, 1900, c. 41, sec. 12; 31 Stat. L., 49.

RESERVE CITIES AND RESERVE REQUIREMENTS.

Sec. 5191.—Every national banking association in either of the following cities: Albany, Baltimore, Boston, Cincinnati, Chicago, Cleveland, Detroit, Louisville, Milwaukee, New Orleans, New York, Philadelphia, Pittsburg, St. Louis, San Francisco, and Washington, shall at all times have on hand, in lawful money of the United States, an amount equal to at least twenty-five per centum of the aggregate amount of [*its notes in circulation and*] its deposits; and every other association shall at all times have on hand, in lawful money of the United States, an amount equal to at least fifteen per centum of the aggregate amount [*of its notes in circulation and*] of its deposits. Whenever the lawful money of any association in any of the cities named shall be below the amount of twenty-five per centum of its [*circulation and*] deposits, and whenever the lawful money of any other association shall be below fifteen per centum of its [*circulation and*] deposits, such association shall not increase its liabilities by making any new loans or discounts otherwise than by discounting or purchasing bills of exchange payable at sight, nor make any dividends of its profits until the required proportion, between the aggregate amount of its [*outstanding notes of circulation and*] deposits and its lawful money of the United States, has been restored. And the Comptroller of the Currency may notify any association, whose lawful money reserve shall be below the amount above required to be kept on hand, to make good such reserve; and if such association shall fail for thirty days thereafter so to make good its reserve of lawful money, the Comptroller may, with the concurrence of the Secretary of the Treasury, appoint a receiver to wind up the business of the association, as provided in section fifty-two hundred and thirty-four.

NOTE.—This section is amended by the act of June 20, 1874, section 2, which provides that no reserve need be held against circulation. Act of March 3, 1903, amending act of March 3, 1887, providing for additional

reserve cities. Provisions relating to redemption of circulating notes, acts June 20, 1874, March 3, 1875, and July 14, 1890. Provisions relating to redemption of old notes of banks extending their corporate existence, act July 12, 1882. Leavenworth, Kansas, was included as a reserve city in the original act, but was struck out March 1, 1872. Words "lawful money" construed by Attorney-General as including all that is legal tender. Opin. Att'y. Gen'l 17: 123.

Act June 3, 1864, c. 106, sec. 31; 13 Stat. L., 108.

Act Mar. 1, 1872, c. 22; 17 Stat. L., 32.

WHAT MAY BE COUNTED AS RESERVE.

Sec. 5192.—Three-fifths of the reserve of fifteen per centum required by the preceding section to be kept, may consist of balances due to an association, available for the redemption of its circulating notes, from associations approved by the Comptroller of the Currency, organized under the act of June three, eighteen hundred and sixty-four, or under this Title, and doing business in the cities of Albany, Baltimore, Boston, Charleston, Chicago, Cincinnati, Cleveland, Detroit, Louisville, Milwaukee, New Orleans, New York, Philadelphia, Pittsburg, Richmond, Saint Louis, San Francisco, and Washington. Clearing-house certificates, representing specie or lawful money specially deposited for the purpose, of any clearing-house association, shall also be deemed to be lawful money in the possession of any association belonging to such clearing-house, holding and owning such certificate, within the preceding section.

Act June 3, 1864, c. 106, sec. 31; 13 Stat. L., 108.

Act Mar. 1, 1872, c. 22; 17 Stat. L., 32.

LAWFUL MONEY RESERVE TO BE DETERMINED BY DEPOSITS. ACT JUNE 20, 1874.

Sec. 2.—That section thirty-one of "the national-bank act" be so amended that the several associaitons therein provided for shall not hereafter be required to keep on hand any amount of money whatever, by reason of the amount of their respective circulations; but the moneys required by said section to be kept at all times on hand shall be determined by the amount of deposits in all respects, as provided for in the said section.

Act June 20, 1874, c. 343, sec. 2; 18 Stat. L., 123.

PROVISIONS FOR REDEEMING CIRCULATION. FIVE PER CENT. REDEMPTION FUND. ACT JUNE 20, 1874.

Sec. 3.—That every association organized, or to be organized, under the provisions of the said act, and of the several acts amendatory thereof, shall at all times keep and have or deposit in the Treasury of the United States, in lawful money of the United States, a sum equal to five per centum of its circulation, to be held and used for the re-

demption of such circulation; which sum shall be counted as a part of its lawful reserve, as provided in section two of this act; and when the circulating notes of any such associations, assorted or unassorted, shall be presented for redemption, in sums of one thousand dollars, or any multiple thereof, to the Treasurer of the United States, the same shall be redeemed in [*United States notes*]. All notes so redeemed shall be charged by the Treasurer of the United States to the respective associations issuing the same, and he shall notify them severally, on the first day of each month, or oftener, at his discretion, of the amount of such redemptions; and whenever such redemptions for any association shall amount to the sum of five hundred dollars, such association so notified shall forthwith deposit with the Treasurer of the United States a sum in United States notes equal to the amount of its circulating notes so redeemed. And all notes of national banks, worn, defaced, mutilated, or otherwise unfit for circulation, shall, when received by any assistant treasurer, or at any designated depository of the Uniteed States, be forwarded to the Treasurer of the United States for redemption as provided herein. And when such redemptions have been so reimbursed, the circulating notes so redeemed shall be forwarded to the respective associations by which they were issued; but if any of such notes are worn, mutilated, defaced, or rendered otherwise unfit for use, they shall be forwarded to the Comptroller of the Currency and destroyed and replaced as now provided by law: *Provided*, That each of said associations shall reimburse to the Treasury the charges for transportation and the costs for assorting such notes; and the associations hereafter organized shall also severally reimburse to the Treasury the cost of engraving such plates as shall be ordered by each association respectively; and the amount assessed upon each association shall be in proportion to the circulation redeemed, and be charged to the fund on deposit with the Treasurer: *And provided further*, That so much of section thirty-two of said national-bank act requiring or permitting the redemption of its circulating notes elsewhere than at its own counter, except as provided for in this section, is hereby repealed.

NOTE.—Section 12 of act of May 30, 1908, provides that notes of national banking associations shall be redeemed in lawful money of the United States.

Section 32 of national-bank act is section 5195, Revised Statutes.

Act June 20, 1874, c. 343, sec. 3; 18 Stat. L., 123.

DIVIDENDS.

SEC. 5199.—The directors of any association may, semi-annually, declare a dividend of so much of the net profits of the association as they shall judge expedient; but each association shall, before the declaration of a dividend, carry one-tenth part of its net profits of the preceding

half year to its surplus fund until the same shall amount to twenty per centum of its capital stock.

Act June 3, 1864, c. 106, sec. 33; 13 Stat. L., 109.

LIMITATION OF LIABILITIES WHICH MAY BE INCURRED BY ANY ONE PERSON, COMPANY, ETC.

Sec. 5200 [as amended 1906].—The total liabilities to any association, of any person, or of any company, corporation, or firm for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed one-tenth part of the amount of the capital stock of such associations, actually paid in and unimpaired, and one-tenth part of its unimpaired surplus fund: *Provided, however,* That the total of such liabilities shall in no event exceed thirty per centum of the capital stock of the association. But the discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as money borrowed.

Act June 3, 1864, c. 106, sec. 29; 13 Stat. L., 108.

Act June 22, 1906; 34 Stat. L., 451.

ASSOCIATIONS MUST NOT LOAN ON OR PURCHASE THEIR OWN STOCK.

Sec. 5201.—No association shall make any loan or discount on the security of the shares of its own capital stock, nor be the purchaser or holder of any such shares, unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall, within six months from the time of its purchase, be sold or disposed of at public or private sale; or, in default thereof, a receiver may be appointed to close up the business of the association, according to section fifty-two hundred and thirty-four.

Act June 3, 1864, c. 106, sec. 35; 13 Stat. L., 110.

TAXES PAYABLE TO THE UNITED STATES.

Sec. 5214 [as amended May 30, 1908].—National banking associations having on deposit bonds of the United States, bearing interest at the rate of two per centum per annum, including the bonds issued for the construction of the Panama Canal, under the provisions of section eight of "An Act to provide for the construction of a canal connecting the waters of the Atlantic and Pacific oceans," approved June twenty-eighth, nineteen hundred and two, to secure its circulating notes, shall pay to the Treasurer of the United States, in the months of January

and July, a tax of one-fourth of one per centum each half year upon the average amount of such of its notes in circulation as are based upon the deposit of such bonds; and such associations having on deposit bonds of the United States bearing interest at a rate higher than two per centum per annum shall pay a tax of one-half of one per centum each half year upon the average amount of such of its notes in circulation as are based upon the deposit of such bonds.

Act June 3, 1864, c. 106, sec. 41; 13 Stat. L., 111.

Act Mar 3, 1883, sec. 1; 18 Stat. L., 488.

Act Mar. 14, 1900, c. 41, sec. 13; 31 Stat. L., 49.

Act May 30, 1908, sec. 9.

STATE TAXATION.

Sec. 5219.—Nothing herein shall prevent all the shares in any association from being included in the valuation of the personal property of the owner or holder of such shares, in assessing taxes imposed by authority of the State within which the association is located; but the legislature of each State may determine and direct the manner and place of taxing all the shares of national banking associations located within the State, subject only to the two restrictions, that the taxation shall not be at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens of such State, and that the shares of any national banking association owned by non-residents of any State shall be taxed in the city or town where the bank is located, and not elsewhere. Nothing herein shall be construed to exempt the real property of associations from either State, county, or municipal taxes, to the same extent, according to its value, as other real property is taxed.

Act June 3, 1864, c. 106, sec. 41; 13 Stat. L., 111.

Act Feb. 10, 1868, c. 7; 15 Stat. L., 34.

APPOINTMENT OF EXAMINERS, COMPENSATION.

Sec. 5240 [as amended 1875].—The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall, as often as shall be deemed necessary or proper, appoint a suitable person or persons to make an examination of the affairs of every banking association, who shall have power to make a thorough examination into all the affairs of the association, and, in doing so, to examine any of the officers and agents thereof on oath; and shall make a full and detailed report of the condition of the association to the Comptroller.

Act June 3, 1864, c. 106, sec. 54; 13 Stat. L., 116.

Act Feb. 19, 1875, c. 89; 18 Stat. L., 329.

TAX ON CIRCULATION OF BANKS OTHER THAN NATIONAL BANKS. ACT FEBRUARY 8, 1875.

Sec. 19.—That every person, firm, association, other than national-bank associations, and every corporation, State bank, or State banking association shall pay a tax of ten per centum on the amount of their own notes used for circulation and paid out by them.

Act Feb. 8, 1875, c. 36, sec. 19; 18 Stat. L., 311.

TAX ON NOTES OF STATE BANKS, MUNICIPAL CORPORATIONS, ETC., USED AS CIRCULATION ANR PAID OUT BY BANKS. ACT FEBRUARY 8, 1875.

Sec. 20.—That every such person, firm, association, corporation, State bank, or State banking association, and also every national banking association, shall pay a like tax of ten per centum on the amount of notes of any person, firm, association other than a national banking association, or of any corporation, State bank, or State banking association, or of any town, city, or municipal corporation, used for circulation and paid out by them.

Act Feb. 8, 1875, c. 36, sec. 20; 18 Stat. L., 311.

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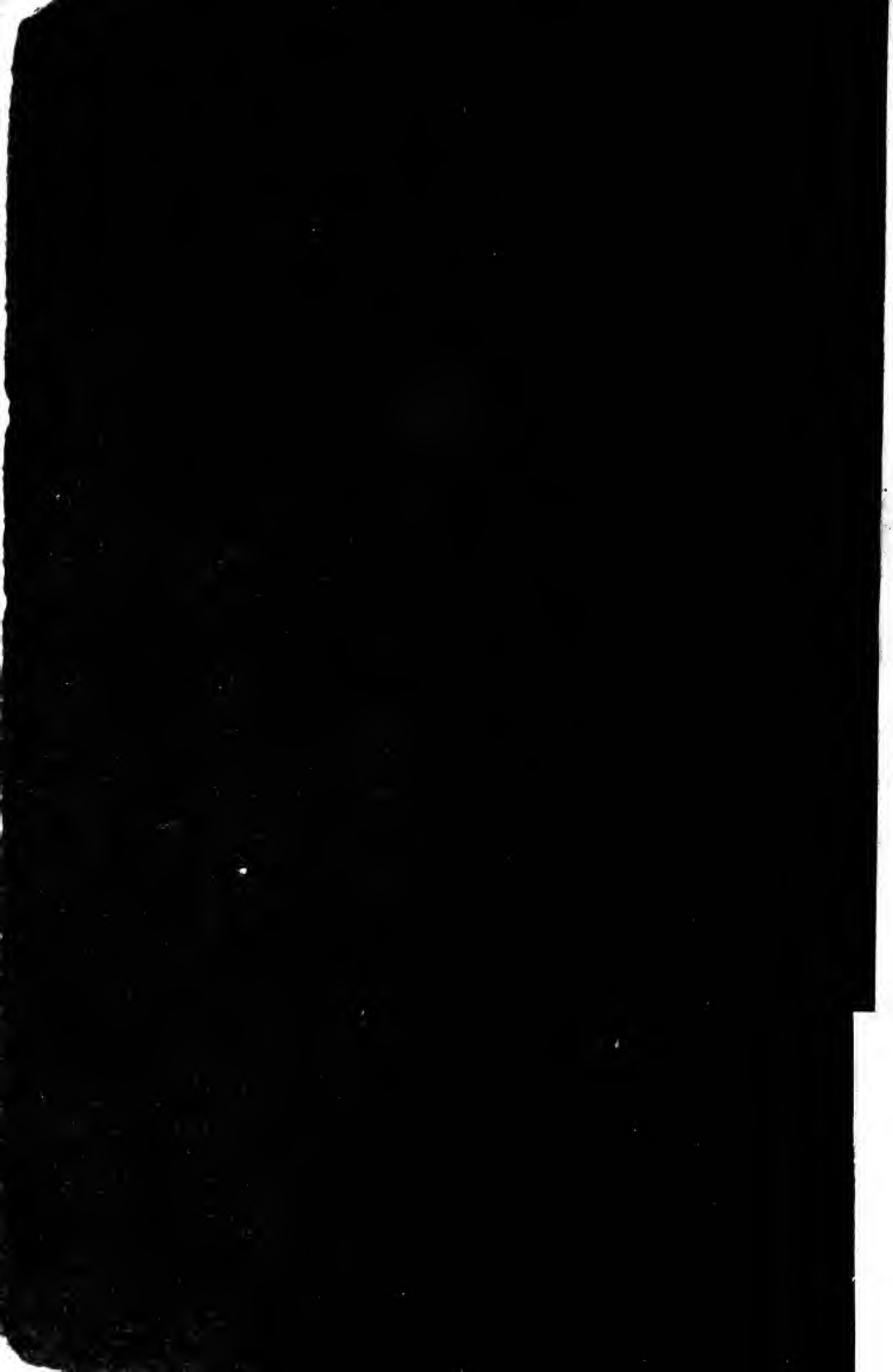
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